



**Yearbook of
U.S.-Japan
Economic Relations
in 1981**

Foreword

THE JAPAN ECONOMIC INSTITUTE of America is pleased to present the fourth edition of our YEARBOOK OF U.S.-JAPAN ECONOMIC RELATIONS, a summary of bilateral economic events and statistical data from 1981 intended to supplement our weekly and monthly publications.

Based upon reader reaction to the first three volumes our Executive Vice President and Director of Economic Studies, Dr. Edward Lincoln, has made changes this year that we hope will make the YEARBOOK an even more useful reference tool.

Once again the Institute thanks Japan's Ministry of Foreign Affairs for providing the special funding that made continuation of the YEARBOOK project possible.

Robert C. Angel
President.

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Preface

This is the fourth year of our annual review of the economic relationship between Japan and the United States. That vital relationship continued to strengthen, although 1981 saw the renewal or emergence of several prominent, divisive issues. In particular, we have covered the concluding episodes of the automobile import question (begun in last year's *Yearbook*) in some detail. Politicization of economic problems is inevitable between any two countries as closely tied economically as are Japan and the United States, and focusing on the problem areas should not be allowed to distort the overall health of the relationship.

The text was prepared by our professional staff, with special thanks to Phyllis Genther for her extensive assistance on editing and data collection. We welcome all comments and corrections from our readers and will endeavor to continue improvements in the future.

Edward J. Lincoln
Director of Economic Studies
June 1982

Part I Chronology

January

1 The United States implements two more GATT codes; the International Government Procurement Code and the Customs Valuation Code.

1 Greece becomes the 10th member of the European Economic Community (EC).

5 A resolution is introduced by Senator Riegle, authorizing the President to negotiate an OMA on automobiles with Japan. This is later overshadowed by stronger quota legislation.

9-19 Prime Minister Suzuki tours the ASEAN nations and holds discussions with Asian leaders on trade, foreign aid, and other issues of mutual interest. This is his first trip abroad.

10 NTT solicits qualification applications for nine different types of equipment, thus opening its procurement process to foreign bidders for the first time. This move follows the bilateral agreement signed the previous December.

12 Administrative-level consultations begin between the United States and Japan on civil aviation in Honolulu as tension mounts on this issue. It remains a problem through the year.

13 The Japanese Cabinet approves the largest tax increase in history, ¥1.4 trillion as part of its continuing effort to reduce deficit financing.

15 The Japan-United States Economic Relations Group issues its major report on bilateral economic relations and includes suggestions to both countries on how to improve the relationship.

20 Ronald Reagan is sworn in as President of the United States. The new administration brings a new set of ideas and objectives on bilateral economic policy that brings rising tension during the year.

20 Caspar Weinberger is confirmed as the new Secretary of Defense. Bilateral defense issues play a large role in bilateral relations during the year.

21 Japan's Finance Ministry releases figures showing the current account deficit at \$10.8 billion and the bilateral merchandise trade surplus with the United States at \$9.9 billion.

21 Alexander Haig is confirmed as the new Secretary of State.

25 Fifty-two American hostages return home from Iran.

26 The Japanese Cabinet approves the government's economic forecast for FY 1981 (April 1981 to March 1982) which predicts a 5.3 percent real growth rate. The Cabinet also approves lifting economic sanctions against Iran after the release of the U.S. hostages.

27 The 97th Congress convenes, and for the first time since 1932 different political parties control the Senate and House.

28 Japanese automakers announce that they produced an all-time high of 11,042,884 motor vehicles in 1980. This makes Japan the world's top auto producing country.

28 President Reagan abolishes all U.S. oil price and allocation controls.

29 Japan announces it will double foreign economic aid over the period of 1981 to 1985.

30 At the end of the month, Drew Lewis, Secretary of Transportation, is asked to form an interagency task force to address the problems confronting the auto industry. It considers the option of restricting imports.

February

4-5 A Japan-EC meeting takes place, at which many of the same trade issues as in the U.S. are discussed. d'Estaing and Schmidt meet in Paris and warn Japan about its auto exports to Europe.

5 Senator John Danforth (R, Mo.) introduces a bill (S. 396) to restrict auto imports from Japan to 1.6 million units annually for three years.

10 U.S. Ambassador to Japan Mike Mansfield and Prime Minister Zenko Suzuki meet in Tokyo to discuss pending issues and the new administration.

11-12 Ministry of International Trade and Industry (MITI) Vice Minister Naohiro Amaya confers with United States Trade Representative (USTR) William Brock on the auto issue in Washington. The Japanese are warned that Congress may take action to restrict imports. Amaya announces the Japanese intention to clear up the issue before the Prime Minister's trip to Washington in May.

17 The EC Council approves measures to monitor imports of Japanese-made autos, color TVs, and certain machine tools.

19 The Commerce Department announces that 1980 real GNP is down 0.1 percent—the first decline since 1975. Weak economic growth is a contributing factor in worsening bilateral relations during the year.

24-25 Saburo Okita, Special Representative for External Economic Affairs, meets in Washington with Reagan administration officials on the auto issue. Some confusion ensues over who is in charge of negotiations on the Japanese side. In the end, MITI takes the lead.

March

4 Secretary of State Haig and President Reagan oppose formal U.S.-imposed import curbs on Japanese autos.

5 Trade representative Okita and MITI Vice Minister Amaya meet with the heads of the Japanese auto industry to discuss the problem of auto exports to the United States. Automakers deny that they are willing to restrict exports.

6 The People's Republic of China cancels large steel mill construction contracts with three Japanese firms.

9 The Senate Finance Subcommittee on International Trade holds hearings on the auto issue. Administration witnesses announce opposition to Senator Danforth's auto quota bill, but favor some form of negotiated restriction.

17 Japan adopts a seven-point package of economic stimulus measures and price stabilization measures. However, constrained by the desire to reduce government, little fiscal stimulus materializes and Japanese economic performance weakens during the year.

17 The Bank of Japan lowers the discount rate from 7.25 to 6.25 percent.

23-24 Foreign Minister Ito meets in Washington with President Reagan, Vice President Bush and others to discuss defense spending and autos.

27 The civil antitrust suit against Japan's major consumer electronics producers is dismissed. This long-running case was part of the campaign mounted by the U.S. industry against color television imports from Japan.

30 Attempted assassination of President Reagan takes place.

April

1 Tariffs in Japan on tobacco products are reduced in accord with the November 1980 agreement with the United States. Impediments to U.S. tobacco product exports to Japan remain an active issue, however.

2 The FY 1981 budget passes the Diet, in which total government expenditures are pegged at ¥46.7 trillion, a 9.9 percent increase. Included in the increase are a 7.61 percent increase in defense spending, a 7.60 percent increase in social welfare and a 17.3 percent increase in energy measures. Other parts of the budget show little increase, as part of the government's fiscal stringency.

6 Vice President Bush announces the auto task force proposals, the centerpiece of which is the elimination of 31 environmental and safety regulations. The question of imports is conspicuously avoided in the task force's recommendations.

7-9 A briefing mission is sent to Japan to explain the Reagan auto assistance package. The mission emphasizes that the U.S. government is not empowered to negotiate a restriction on auto imports, but suggests that Japan should act to forestall Congress.

8 Japan begins trade agreement talks in Tokyo with the U.S.S.R. which had been delayed because of East-West tension following the Afghanistan invasion.

9 A U.S. nuclear submarine, the George Washington, collides with a Japanese freighter,

evoking a storm of political protest in Japan.

14 Japan's customs-clearance merchandise trade deficit for FY 1980 is announced to be \$5.6 billion—only half that of FY 1979.

14 A delegation from the Liberal Democratic Party (LDP) arrives in Washington for talks on the auto issue. The United States reinforces the idea of voluntary restraints by Japan to defuse congressional action.

14-15 American, Japanese and West German officials meet on the future of the tripartite SRC II coal liquefaction project in West Virginia. Later in the year the project is cancelled.

18 Radiation leaks are reported at the Tsuruga nuclear plant in Fukui Prefecture. This raises new concerns over nuclear energy in Japan.

20 USTR announces this week a program to focus on problems of trade in services. The issue of services trade promises to become more important bilaterally.

23 MITI announces that FY 1980 oil imports were down 10.1 percent from FY 1979—the largest drop in recent history—reflecting continued conservation efforts and the shift to alternative sources of energy.

25 MITI Minister Rokusuke Tanaka meets with heads of Japanese auto firms to discuss concessions on auto export levels to the United States. The automakers continue to oppose any cutback in auto exports below 1980 levels.

26 President Reagan ends the embargo on exports of grain and phosphate fertilizer to the U.S.S.R.; Prime Minister Suzuki criticizes the United States for lack of consultation.

26 USTR Brock and MITI Vice Minister Amaya begin a six-day series of meetings in Washington and then Tokyo on curbing auto exports. These meetings finally yield a conclusion to the continuing auto problem.

May

1 A "non-agreement" on Japanese auto exports to the United States is announced which consists of a two- to three-year voluntary export restraint. In FY 1981, exports are to be held to 1.68 million units (excluding station wagons, four-wheel drive vehicles, and exports to Puerto Rico, all to be set later).

1 Japan raises its commodity tax on automobiles as part of the government's efforts to reduce its fiscal deficit.

4 The Federal Reserve raises the discount rate from 13 to 14 percent. Coupled with falling rates in Japan this action reflects the widening interest rate differential between the two countries.

7-8 Prime Minister Suzuki is in Washington to meet with President Reagan. Meetings go smoothly, but the Japanese press jumps on the

use of the word "alliance" in the joint communique.

16 Masayoshi Ito resigns as Foreign Minister after the press says Suzuki bowed to the United States on the defense issue in the Reagan-Suzuki Communique and he is replaced by Sunao Sonoda.

25 Major revisions to Japan's bank law pass the Diet and are scheduled to go into effect on April 1, 1982. Among the changes, limits are put on the maximum size of loans to a single client.

June

3 Japan's Diet passes a law revising the commercial code to eliminate the gap between law and practice. Included are changes in the method of issuing stock.

6-19 Prime Minister Suzuki visits the EC. His trip has the purpose of containing criticism of Japan's exports and to press the EC countries to maintain free trade principles.

10-12 The 13th annual security subcommittee meeting between U.S. and Japanese defense and foreign affairs officials takes place in Honolulu to discuss Japan's defense role under the Security Treaty.

18-19 The 18th annual U.S.-Japan businessmen's conference is held in New York. Executives of major U.S. and Japanese corporations discuss medium and long range bilateral issues.

19 Secretary of State Haig and Foreign Minister Sonoda meet in Manila; Sonoda rejects higher defense outlays.

19 The Joint Economic Committee holds the first in series of hearings on U.S.-Japan economic relations. Under discussion is how to rectify the gross imbalance in economic ties.

23-26 U.S.-Japan Lumber Trade Promotion Committee meets in Japan—a private group promoting U.S. forest product exports to Japan.

24 MITI informs Japanese automakers of their individual quotas for exports to the United States during FY 1981 under the voluntary restraint agreement settled on May 1.

24 The governments of Japan, the United States and West Germany agree to drop the tripartite synfuel project (SRC II) in West Virginia.

29 Secretary of Defense Weinberger meets in Washington with Japan Defense Agency Director Joji Omura. Japan again declines to push defense buildup as far as the United States wants.

July

8-13 The Senate Subcommittee on International Trade begins hearings on whether the United States needs a comprehensive trade policy. USTR Brock presents a white paper outlining overall Reagan administra-

tion trade policy for the first time. Reduction of foreign trade barriers is a prominent point in that policy.

10 The government reform advisory council in Japan submits recommendations on administrative reform aimed at reducing the government deficit. This places business in support of continued stringent fiscal policy.

14 UAW President Fraser proposes a limit on foreign-made parts and labor on any cars sold in the United States by makers of more than 200,000 units.

15 The second U.S.-Japan Coal Conference is held during this week in Nevada concerning problems and prospects for U.S. steam and metallurgical coal exports to Japan.

20-21 The annual economic summit meeting of western leaders takes place in Ottawa. Criticism of Japanese trading practices is avoided in the communique. Also, President Reagan vigorously defends high U.S. interest rates.

24 Commerce Secretary Baldrige announces that the U.S.-Japan Trade Facilitation Committee (TFC) will be upgraded, after meeting with MITI Minister Tanaka.

31 Congress approves a \$35.2 billion FY 1982 budget cut. Desire to avoid antagonizing Congress while this bill was pending was one reason for encouraging Japan to restrain auto exports.

August **8** Congress approves the tax cut bill, the second half of the Reagan economic package.

17-18 Bilateral consultations take place on the Medfly issue. Japan backs down from a proposed ban on all California produce, but disagreements concerning treatment of fruits and vegetables from areas affected by the medfly infestation remain.

20-21 The foreign ministers of Japan and Korea meet. Korea requests a large aid package of \$6 billion. The request surprises Japan.

31 A U.S. congressional delegation begins a visit to Japan to discuss trade and other issues, led by Sam Gibbons of the House Ways and Means Subcommittee on Trade. This leads to another report on bilateral economic relations, released in December.

31 The fifth U.S.-Japan Ocean Conference begins in Tokyo, focusing on security and defense issues.

September **1** Rising East-West tension is cited as the most significant world problem in the Japanese Foreign Ministry's annual report.

1-2 A meeting of U.S. and Japanese officials is held in Washington to discuss spent nuclear fuel reprocessing. An agreement is

reached to revise the present arrangement in order to let the experimental operation at Tokaimura continue.

2-4 The fifth Shimoda conference is held in Japan, a periodic bilateral forum at which defense and trade issues are discussed. Some sharp differences are expressed, including opinions on the degree of openness of the Japanese market.

8 The U.S.-Japan consultations on the Medfly issue reach agreement on the actions to be taken on American fruit and vegetable exports from the affected areas in California.

10-11 A conference on the U.S.-Japan economic relationship for Japanese government officials and business representatives is held in New York.

14-15 U.S.-Japan subcabinet level discussions on trade are held in Washington, focusing mainly on broad economic issues. A special subcommittee on trade is formed to handle trade issues falling outside the purview of the upgraded TFC.

15 USTR Brock testifies before the Joint Economic Committee on Japan's agricultural import policy, calling on Japan to liberalize its imports.

16 The executive council of the Trade Facilitation Committee (TFC) holds its first meeting in Washington following the subcabinet meetings.

18 Defense Department officials meet with the Defense Agency's director of equipment in Washington and agree to step up cooperation, including possible joint research on defense technology.

21 Foreign Minister Sonoda and Secretary of State Haig discuss the international situation in New York while attending the United Nations General Assembly meetings. Sonoda also confers with Soviet Foreign Minister Gromyko.

21-22 The Japan-Midwest Conference is held in Chicago.

28 Defense Deputy Secretary Carlucci discusses Japan's defense role in Tokyo with Foreign Minister Sonoda and Defense Agency's Director General Omura.

30 The U.S. and Japanese governments announce an agreement to lower tariffs on semiconductors to 4.2 percent starting in 1982.

October **1** Japan's Democratic Socialist Party delegation meets with officials in the Executive Branch and the Congress.

2 Japan announces a plan to increase imports in an effort to forestall protectionist efforts abroad as part of a four-point economic package hoped to stimulate the domestic economy.

4 Japan and the U.S.S.R. agree to meet regarding the status of the Northern Territories and on other issues.

6 The Japan-U.S. Economic Relations

Group issues a second report on bilateral economic and trade issues, after which its disbands. The Group was established following the 1979 Carter-Ohira summit.

10 Foreign Minister Sonoda attends the funeral of President Sadat in Cairo and meets with Secretary of State Haig. Sadat had been planning on going to Tokyo in the near future.

12-15 PLO Chairman Arafat visits Tokyo and meets with Prime Minister Suzuki. This is Arafat's first semi-official visit to an industrial country. Japan does not give diplomatic status to the PLO, but desires to open communications.

13-14 A preparatory working-level meeting of American and Japanese officials on reopening aviation talks is held in Washington. The two sides remain far apart and a further meeting is scheduled for November.

15 The third U.S.-Japan agricultural products meeting convenes in Tokyo. The United States presses again for increased grain reserves and an accelerated start on agricultural quota talks.

16 OECD member countries agree to raise and more closely coordinate concessionary export credits. This eases the growing international credit war by government-owned export-import banks.

21 American business leaders from the Business Round Table confer with a group led by Keidanren chairman Inayama in New York.

22-23 Prime Minister Suzuki attends the North-South summit talks in Cancun.

28-30 Commerce Secretary Baldrige and Under Secretary of Commerce for International Trade Administration Olmer confer in Tokyo with Japanese officials concerning the widening bilateral trade gap.

29 OPEC meets in Geneva and agrees on a unified price of \$34 per barrel through 1982.

30 The Federal Reserve Board lowers the discount rate from 14 to 13 percent.

30 A group of 31 congressmen send a letter to Prime Minister Suzuki requesting that Japan grant greater access to American products. They warn that otherwise political reality may prompt protectionist action by Congress.

November **2** Commerce Secretary Baldrige testifies at the House trade subcommittee on bilateral trade, reviewing his recent trip to Japan. He emphasizes the need for Japan to dismantle more import barriers. **2** Japan's Ministry of Posts and Telecommunications urges the Foreign Ministry to file a protest with the U.S. government on Fujitsu's rejected bid for AT&T's procurement of fiber optic cable.

5 The Japan-United States Rail Congress is organized in Washington to promote transfer of Japanese high-speed rail technology to the United States.

7 The Japanese Cabinet discusses the trade imbalance with the United States and EC countries. Concern is rising over the rapidly escalating criticism from abroad.

8-11 The 16th U.S.-Japan Mayors and Chairmen of Chambers of Commerce Conference is held in San Diego.

11 Foreign Ministry officials tell the Diet that cooperation in arms technology is possible within the framework of the U.S.-Japan Security Treaty. The United States favors this as a way to improve defense burden-sharing.

13 Commerce Secretary Baldrige announces the filing of steel antidumping suits against Belgium, Brazil, France, Romania and South Africa. Japan is conspicuously absent from the list.

16 USTR delivers a request on tariff and nontariff barrier reductions to the Japanese government. The list is in preparation for the December subcabinet talks.

16 The U.S. government accepts Japan's proposal to hold meetings on exports of American petrochemical products to Japan, where rapidly rising imports have hurt the financially-strapped domestic industry.

16-20 U.S.-Japan aviation talks are held in Honolulu. While some progress is made, the two sides remain far apart.

17 The State Department delivers another list of trade barriers on which the United States wants Japanese concessions. This follows on the heels of a list prepared by USTR.

18 A meeting of 51 nations begins in Geneva and agrees to extend the Multilateral Fiber Arrangement to July 31, 1988.

19-20 Secretary of Treasury Regan meets with Prime Minister Suzuki and other Cabinet ministers in Tokyo.

25 Prime Minister Suzuki confers with Japanese members of the former Japan-U.S. Economics Relations Group on bilateral trade conflicts.

30 The new Suzuki Cabinet is announced which brings in a new Foreign Minister and new MITI minister. Prime Minister Suzuki also orders the Finance Ministry to issue a wide range of accelerated tariff reductions to take effect in April 1982.

December

1 The Senate Finance Subcommittee on International Trade holds a hearing on the state of the American auto industry. Concern is rising again as domestic sales sag far below those anticipated when the restraint agreement went into effect the previous spring.

2 The Senate Finance Committee passes a "sense of the committee" resolution asking USTR to take necessary measures to achieve reciprocal trading opportunities in Japan.

3 MITI officially protests to the U.S. gov-

ernment that Deputy USTR Macdonald's testimony on a possible reduction in Japanese auto exports in FY 1982 is contrary to the bilateral agreement.

4 The Federal Reserve Board lowers the discount rate from 13 to 12 percent.

8 The upgraded Trade Facilitation Committee holds a meeting in Tokyo to take up specific trade problems.

9 Senator Charles Percy, chairman of the Senate Foreign Relations Committee, sends a letter to the Japanese government requesting an increase in imports from the U.S.

9-10 Deputy USTR David Macdonald heads the U.S. side in the subcabinet-level talks in Tokyo, pressing Japan to further open its market to manufactured and agricultural imports, following up on the lists presented to Japan in November.

11 The Bank of Japan lowers the discount rate from 6.25 to 5.5 percent.

14 The U.S. Civil Aeronautics Board (CAB) announces limited retaliatory measures against Japan Air Lines in response to Japan's refusal to allow United Airlines access to Japan.

15 The Japanese Ministry of Transportation rejects the CAB's interpretation of the bilateral aviation agreement regarding the United Airlines issue and introduces limited retaliation of its own.

16 Prime Minister Suzuki chairs a cabinet meeting on trade issues at which it is decided to prepare a list of unilateral concessions on nontariff barriers to ease criticism from abroad. The list is to be released at the end of January.

16 Secretary of Defense Weinberger, interviewed on a special TV program by NHK (Japan Broadcasting Corporation), requests Japan to increase defense expenditures.

22 The House Trade Subcommittee, chaired by Sam Gibbons, releases a report on U.S.-Japan trade issues and the problems of American industry. It takes a stronger stand on Japanese barriers than the previous subcommittee report in 1980.

24 The Prime Minister's advisory council on government reform recommends legislative action to streamline Japan's import inspection procedures.

27 The Japanese government's budget for FY 1982 is announced. It includes a 7.754 percent increase for defense and an 11 percent increase for economic aid. Other items are held down to reduce the degree of deficit financing.

Part II

Introduction

After two years of relative peace at official levels, bilateral economic relations began to deteriorate seriously in 1981, heading for another of the periodic crises that have characterized the past decade. These developments came as economic transactions between the two countries continued to expand and strengthen. Unfortunately, the expansion was uneven, dictating a widening bilateral merchandise trade imbalance. Behind the deterioration lay weak economic performances and inward-looking economic policies in both countries that exacerbated the imbalanced trade situation, but the tone of bilateral discussion was motivated by more than just trade statistics.

With the inauguration in 1981 of the Reagan administration, a completely new set of economic policymakers wielded influence on foreign economic affairs. In Japan, too, Prime Minister Suzuki realigned the Cabinet late in the year, bringing some changes in ministerial appointees involved directly in bilateral policy decisions, but as in the past, the initiative lay in Washington. While there was no particular reason to expect that the new administration arriving in Washington at the end of January would induce a serious increase in tensions with Japan, a number of key decisions made during the year, coupled with the imperatives of the auto issue and the rising bilateral trade imbalance, brought about this result.

Economic Conditions

The issues in question should be viewed against the background of global and bilateral economic developments. Globally, 1981 is thought to have been another disappointing year marked by continuing inflation and slow growth (Part III). The IMF estimated a decline in the value of world trade for the first time since 1958. Real

economic growth in the industrial countries continued to be low, and world inflation was down only slightly. These statistics added up to a discouraging setting for Japan and the United States.

Although Japan's GNP growth has been far stronger in the last two years than the United States', both countries did rather poorly in 1981 even though Japan's performance was better. After growth at 5.2 percent in 1979 and 4.2 percent in 1980, expansion continued to slide in 1981 to 2.9 percent. Not only was growth slower, but its uneven pattern recalled 1980, with net exports showing the only sizable gain, while domestic sectors languished. Even the thrust from exports was gone by the fourth quarter, yielding the first actual drop in real GNP since the aftermath of the 1973 oil shock. These developments are considered in Part IV.

For the United States, preliminary GNP data in 1981 show an overall 2.0-percent growth rate for the year, better than 1980's drop of 0.2 percent, although still weak and somewhat lower than Japan. But by the fourth quarter, the United States had entered a recession. U.S. developments are covered in Part V. In some ways, the pattern in both countries was similar; government expenditures were constrained by austere fiscal policies and housing investment was curtailed. The glaring difference, however, showed up in net exports, with Japan up 54 percent for the year, while the United States had an annual drop of 14 percent. The large rise in the bilateral trade imbalance was a result of these developments in net exports. However, it should be noted that the rise in net exports came to an abrupt halt in Japan by the fourth quarter.

What accounts for these divergent external positions? The two factors involved are economic growth rates and the yen-dollar exchange rate. As for the first, continued

slow growth in Japan meant that once again domestic savings exceeded the domestic demand for investment. According to simple national income accounting principles, the difference must show up as either a government deficit and/or an external surplus. With the government vigorously cutting down the deficit for domestic reasons, the net external surplus grew. Since Japan runs a consistent and increasing deficit on services, this increase implied a return of Japan's merchandise trade surplus—\$8.9 billion on a customs-clearance basis or \$20 billion on a balance-of-payments basis. At a more concrete level, slow economic growth in Japan meant that some of the markets which are important to American exporters (such as logs and lumber for housing) were rather depressed. In the United States and other countries, on the other hand, demand for some types of products from Japan, such as automobiles and video cassette recorders were impervious to the overall slow rate of economic growth.

As Japan's trade and current-account surplus began to build during the year, expectations were that the yen would quickly appreciate. A stronger yen makes Japanese exports less competitive abroad and American products more competitive in Japan. But the wide interest-rate differential between Japan and the West led to a capital outflow, creating demand for dollars and eliminating any trade surplus-caused yen appreciation. Beginning the year at close to ¥200 = \$1, the yen actually ended the year at around ¥220, a rate that made Japanese exports more competitive abroad and raised the price of foreign products, especially when one considers the low inflation rate in Japan.

The point is that the widening trade imbalance has been the result of economic factors, not trade barriers. Had the Japanese government used fiscal policy to stimulate its economy, import markets would have grown.

Had the United States allowed interest rates to fall (or Japan allowed its to rise), the yen would have appreciated, slowing the growth of the Japanese surplus. Both countries followed economic policies that acted to widen the bilateral imbalance and produce a global trade and current-account surplus for Japan while expanding the U.S. trade deficit. It is important to keep this in mind considering the political importance that has been attached to Japan's trade surplus during the various discussions and negotiations during the year. These are discussed in Part VI.

Emphasizing the political nature of the trade imbalance was the manner in which the figures were publicized when released in January 1982. U.S. trade data are normally measured on an f.a.s. basis for both imports and exports (an accounting procedure not used by any other country). In 1981, the U.S. bilateral trade deficit with Japan on this basis was \$15.8 billion, up from \$9.9 billion in 1980. However, the figure that the Reagan administration chose to publicize was based on exports on an f.a.s. basis and imports on a c.i.f. basis, which increases the measured value of imports. Using these figures, the U.S. bilateral deficit was \$18.0 billion. While representing an equally valid accounting procedure, this larger, more dramatic figure was the one uniformly reported in the U.S. press, and was improperly compared to the \$9.9 billion f.a.s.-f.a.s. figure for 1980. While the increase was still substantial even without this sleight-of-hand maneuver, there was some attempt to make the most of the imbalance politically.

Rising Tension

With the unpropitious world economic environment and poor economic performance of both countries, it is no surprise that relations deteriorated in 1981. Problems that had been building in 1980 now came to the fore, or demanded resolution, as in the case of autos.

It was unfortunate that the auto issue was waiting for the administration before it had time to establish its overall trade policies. Although the outcome did not signal a general move toward protectionism, automobiles provided the first negotiating experience with Japan for the Reagan administration. What did emerge as the central policy, as discussed in Part VI, was the question of access to Japanese markets for American products, and this was the major economic issue upon which tensions rose and relations deteriorated. Criticism was also leveled at Japan's defense efforts.

Adding further fuel to these problems was the rising bilateral trade imbalance. While the final figures for the year were not available until January 1982, American decision-makers were uncomfortably aware much ear-

lier of the direction and probable extent of the imbalance. By the end of the year, the United States had formulated a shopping list of demands which called for Japan to further open its markets to imported goods, and the Japanese were scrambling to come up with a response that would both appease the Americans and prove politically feasible in so short a time. As American demands became more specific and more strident, many Japanese reacted with a rising sense of persecution, and strong criticism of the United States was increasingly voiced. Preoccupied with these politically sensitive issues, both countries were set for another of the periodic low points in bilateral relations.

Economic relations between Japan and the United States almost seem to fall into a pattern whereby each incoming administration develops a trade policy that puts pressure on Japan in order to forestall protectionism in Congress and keep peace with the business community. Given the dynamics of U.S.-Japan negotiations, this then generates a perception of crisis and results in Japanese concessions under duress. Efforts are then made at official levels to announce that relations have never been better. Perhaps the most unfortunate aspect of the current situation is that even though many of the American-raised issues concerning market barriers are quite legitimate, the attitude of many Japanese has been that the accusations are unfair and that any concessions will be made only to appease the United States rather than on their own merit.

Part III The World Economy

Economic Developments

Japan and the United States interact within the context of world economic devel-

opments. Aggregate data on these developments are always slow to appear, but the outlines of 1981's economic activity can be reviewed. Persistent problems arising from the 1979 oil shock continued to affect world growth prospects, with many countries experiencing slow (or slower) GNP growth while consumer price inflation abated only slightly and world trade volume was flat. On the other hand, prices of internationally traded commodities fell and the trade balances of developing and developed countries showed some movement back toward equilibrium. On foreign exchange markets, the value of the dollar against a basket of currencies was up significantly, largely on the strength of high interest rates in the United States. In sum, 1981 did not provide an auspicious scene for U.S.-Japan relations.

Overview of Economic Growth

With the 1979 oil shock two years in the past, economic growth continued to be low in the industrialized nations, while the newly industrializing countries of Asia have managed to sustain a relatively strong performance. Europe has been particularly hard hit, where recession-induced problems have led to deteriorating economic relations between the European Community (EC) and Japan. In 1981 not even Japan was immune to the stagnation that afflicted the major industrialized countries.

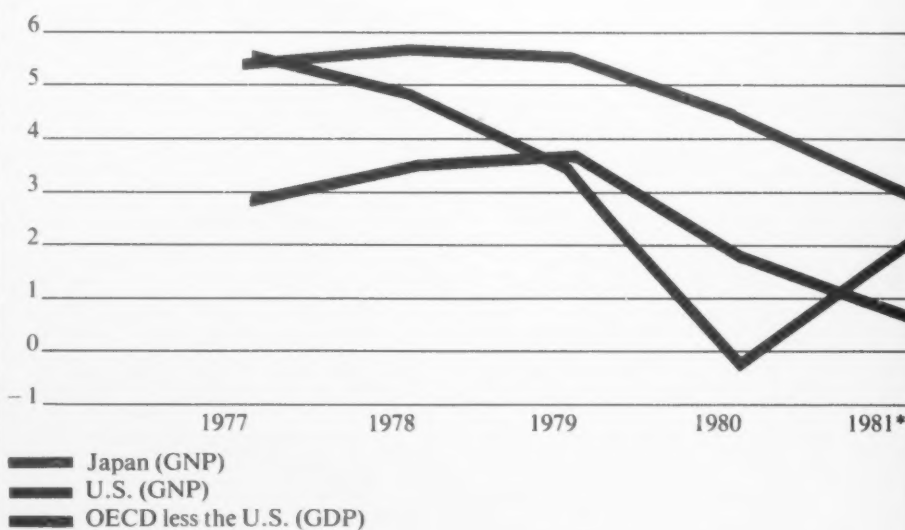
At the end of the year, the OECD forecast that its member countries would show an average growth of 1 1/4 percent, or just about the same as 1980. But of the major OECD members, only the United States and Canada escaped a drop in growth. In fact, the OECD estimated growth for all member countries

minus the United States to be only 3/4 percent, down from 1.9 percent in 1980. Growth remains far lower than the 3- to 7-percent levels that prevailed in the 1960s and 1970s for this group of countries. The United States managed to outperform the OECD prediction of 1 3/4 percent with its 2.0-percent growth rate, whereas Japan did considerably worse at 2.9 percent, far below the OECD forecast of 3 3/4 percent. In the past, Japan has been clearly ahead of other industrialized countries, but while this was no longer the case

growth rate, employment fell in most OECD member countries (except the United States, Japan and Canada). The average level of employment in Western Europe was expected to drop 1 3/4 percent, leaving over 14 million unemployed, up three million over 1980. With positive economic growth and stagnant or falling employment, productivity (measured by GNP/total employment) was expected to rise slowly in the OECD by 1 1/4 percent, slightly above 1980's pace of 0.6 percent. The marginal improvement in productivity

Economic Growth in Real Terms

percent change



*preliminary

Source: The Organization for Economic Cooperation and Development

in 1981, Japan did escape the recessionary conditions plaguing the major European countries.

Reflecting the year's low economic

was scant consolation to the European countries, though, in light of their serious employment problems.

The main cause of the economic slow-

down in the industrialized countries, according to the OECD, has been the imposition of restrictive monetary policies to combat the oil-induced inflation. In 1979 and 1980, the sudden rise in the relative cost of oil had a deflationary impact, but this has now worked through the economic system. To contain the general inflationary impact of the oil-price rise, many OECD member nations turned to a tight monetary policy, which is now having its own deflationary impact and has been marked by high nominal and real interest rates.

The Asian developing countries generally fared better. For several, real growth was slightly lower than in 1980, but the drop was small and growth was still substantial. Singapore and Indonesia managed to stay close to a 10-percent real growth rate, and South Korea, which had suffered an absolute decline in 1980 during the political upheaval, returned to a 7.1-percent growth level in 1981. Taiwan saw its growth slip to 5.5 percent (from 6.7 percent in 1980), but even this was a respectable performance. It is especially interesting to note that a number of these countries are major exporters of manufactured goods, and that they have performed well despite continued talk of rising world protectionism. Some of them are also raw material exporters (especially OPEC-member Indonesia), and they continued to do well despite 1981's sharp drop in commodity prices.

Inflation

Inflation has become a stubborn problem. Despite declining prices in internationally traded commodities in 1981, high levels of consumer price inflation in most countries led to restrictive monetary policies and slowed growth. IMF data for all commodities show a drop of 17.0 percent for the year, after a 12.0-percent rise in 1980, and an even higher 16.6-percent jump in 1979. This abrupt turnaround in the direction of price movements was a result of sluggish demand for crude oil, which rose in price by only 6.2 percent (the Saudi Arabian price) following a 33-percent jump in 1980 and an 88.9-percent leap in 1979. Reflecting the continued slowdown of economic growth in the industrialized countries, non-fuel commodity prices dropped sharply in 1981. The Commerce Department's index for all non-fuel commodities fell 23.6 percent, with food dropping 22.3 percent and industrial materials sliding 10.2 percent. Part of this trend can be attributed to the rise of the dollar against most currencies, but slowed demand was clearly a factor as well.

According to the IMF average consumer price inflation in 1981 was 14.1 percent, compared to 15.4 percent in 1980 and 11.9 percent in 1979. As a group, the industrialized countries performed better than this,

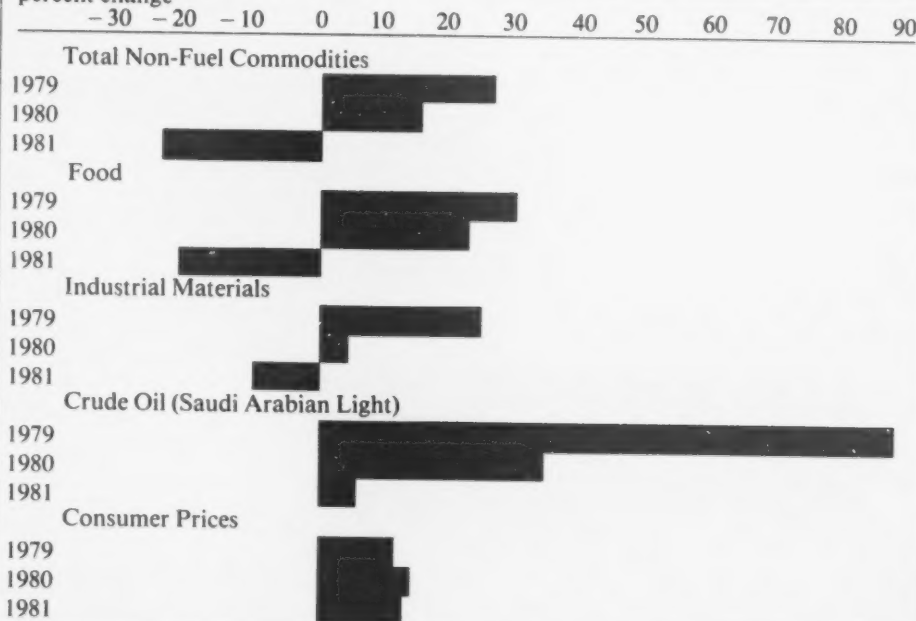
with an average of 9.9 percent in 1981, down from 11.9 percent in 1980. A few managed rather low rates, with Japan the lowest-ranking at 4.9 percent, West Germany 5.9 percent, and Switzerland 6.5 percent. Inflation in the United States declined, but remained at a high 10.4 percent.

Inflation in the developing countries was higher than average, as has been the case in the past. Oil-exporting countries ran a consumer price inflation rate of 13.0 percent in 1981, down slightly from 14.1 percent in 1980. However, the non-oil-exporting developing countries faced average increases of 34.7 percent, soaring above the 32.2-percent level of a year earlier. Most of the fast-growing developing countries of Asia, on the other hand, managed to contain inflation to levels resembling those of the industrialized countries, with two exceptions—Hong Kong (18 percent) and South Korea (23.3 percent).

High levels of inflation have been blamed for obfuscating relative price change signals to business and consumers, as well as redirecting savings and investment to short-run projects or to non-productive assets including real estate, art and race horses. Accordingly, monetary policy was tightened in the industrialized countries following the 1979 oil shock, indicating the intention of these governments to avoid accommodating the relative rise of oil prices by refusing to allow the increase in money supplies that would enable all other prices to rise. As a result, the high interest rates engendered by inflation have remained high because of monetary austerity.

World Inflation Rates

percent change



Source: Department of Commerce and the International Monetary Fund

Yearend comparison of short- and long-term rates in 1981 shows most countries at or above 10 percent, with the 10.66-percent rate on three-month U.S. Treasury bills by no means the highest. The only country significantly below 10 percent on roughly comparable three-month financial instruments was Japan. Virtually the same situation prevailed on long-term rates (based on the Chase Manhattan Bank's listing of average yield on new and outstanding long-term prime industrial bonds), with Japan at 7.16 percent. Only Switzerland was below Japan with 6.5-percent rates. Long-term rates in the United States were high (15.1 percent), but not as high as France's 17.3 percent.

Moreover, interest rates generally rose during 1981 on a yearend comparison. Short-term rates fell somewhat in the United States and on the London Interbank Offered Rate (LIBOR) for Eurodollar deposits, but rose in Britain, France and Switzerland, while remaining steady in West Germany. Japan again stands out, moving from a position at the end of 1980 where its short-term rates were only slightly below those in other industrialized countries through a series of reductions until its interest rates were well below prevailing rates in other countries. Long-term rates paralleled this situation, causing the gap to widen. With inflation easing somewhat during 1981 in the industrialized countries, this meant that real (inflation-adjusted) interest rates were increasing in most countries as well, and the higher real rates played a role in slowing economic growth.

In the face of these numbers, it can be

seen that Japan differed sharply from most other countries. Faced with rapidly diminishing consumer price inflation, it acted to ease monetary policy (discussed further in Part IV) in order to stimulate its lagging economy. No other country followed such a route, not even West Germany where inflation levels were not much higher than those in Japan. This does not mean that other countries were satisfied with maintaining high interest rates, and Germany in particular joined Japan in complaining to the United States about the detrimental effects of the U.S. interest rate policy.

Trade and Payments

IMF data on trade show a decline of 2.6 percent in the value of world merchandise exports for the first time since 1958. Much of this was due to falling commodity values, but even the volume of overall world trade stagnated in 1981. The total volume, however, includes a drop of 14 percent in petroleum exports and 5 percent in other minerals, with agricultural products up 5 percent and manufactures up 3 percent in volume terms. Even within this stagnant framework, some adjustment took place to correct the abnormal surpluses and deficits induced by the 1979 oil-price increase.

The combined merchandise trade deficit of the industrialized countries (with exports measured f.o.b. and imports c.i.f.), contracted during 1981 to \$73.9 billion from \$125.4 billion in 1980. This improvement in the collective balance was largely a result of slowed economic growth and diminishing import demand, since the dollar value of industrialized country exports dropped 2.1 percent. Japan, for example, saw its trade account shifting from a deficit of \$10.9 billion in 1980 to a surplus of \$8.6 billion in 1981. Germany also followed this trend with its \$4.9-billion surplus of 1980 expanding to \$12.2 billion in 1981. The United States, however, ran an increased deficit, rising from \$32.2 billion in 1980 to \$39.7 billion in 1981, largely due to the appreciation of the dollar.

In the developing countries, the oil-exporting nations saw their merchandise trade surplus contract from \$163.2 billion to \$125.7 billion as exports dropped 9.4 percent in dollar terms. The non-oil-exporting developing countries, which have suffered serious deficits and potential problems in financing them, registered a combined merchandise trade deficit of \$83.3 billion (estimated from incomplete data), down somewhat from \$95.4 billion. Exports from these countries expanded in dollar terms only 0.1 percent. Some of the industrializing countries of Asia, however, experienced rather rapid export growth, including South Korea (21.4 percent), Hong Kong (10.6 percent) and Singapore (8.2 percent).

Trade Agreements

Despite the risks of rising protectionism, world manufactured exports seem to grow as fast or faster than world GNP. Countries that have depended heavily on manufactured exports as a development strategy, such as South Korea and Singapore, did relatively well in the recessionary atmosphere of 1981. Protectionist pressure remained strong, however, and some trade-restrictive measures, such as the "voluntary" auto export restrictions in the United States, Canada, Germany and Belgium did emerge. This particular action is considered in detail in Part VI.

At the same time, international agreements to implement the second stage of tariff cuts under the Tokyo Round of multilateral trade negotiations (MTN) went into effect on January 1, 1981. All other provisions of the MTN had already entered into force, and at its annual review in November, the GATT members judged that implementation of the Tokyo Round was proceeding satisfactorily. The only area where agreement remained elusive was on a safeguards system, and no progress was made on this issue. Nor was there any start toward liberalization of services trade barriers, despite the interest expressed in creating a new multilateral trade negotiation in this area. But with the issues still relatively undefined and diffuse, no concrete proposals surfaced during the year.

One matter that was resolved by the GATT was the extension of the Multifiber Arrangement (MFA), decided at the end of December and slated to run from January 1, 1982 to July 31, 1986. Under the MFA, more than four-fifths of the world trade in textiles and clothing, primarily from the developing countries, is controlled by a system of international quotas. Industry has argued that these restrictions on the growth of textile and apparel exports to the industrialized countries are justified on the grounds that more stringent restrictions would be imposed in their absence.

Exchange Rate Developments

Only three years ago, concern was building over what seemed to be a continuously falling dollar. By 1981, however, the reverse was true, with cries of an overvalued dollar becoming increasingly strident. Comparing currency values at the end of December 1981 to a year earlier, the average value of the dollar measured against a weighted basket of 13 currencies rose 8.8 percent to 90.1 percent of its April 1971 level (before dollar devaluation and floating). The dollar rose against all currencies except the Canadian dollar. Relative to European currencies, the climb was steep in most cases, ranging from a low of 16.1 percent against the West German mark to a high

of 30.6 percent against the Italian lira. Only Switzerland, with its unique financial position, remained immune at a tiny 1.6-percent dollar appreciation against the Swiss franc. As for gold, the subject of a speculative bubble when the dollar had been falling, its price plummeted to just under \$400.

With a dollar appreciation of only 6.9 percent against the yen, Japan would seem to have had a relatively strong currency, but that was not the case, as can be seen by reviewing developments during the year. At the beginning of January 1981, the yen stood at ¥201 = \$1 (based on the median interbank rate on the Tokyo foreign-exchange market) and stayed above ¥210 until April. Beginning in April, a fairly steady and swift depreciation set in, until the yen reached its low for the year at ¥247.1 on August 4. Much of this movement was part of the general rise of the dollar, since most other currencies reached their low against the dollar around the beginning of August as well. Following this low, the yen bounced back to the ¥230 vicinity and remained there until the middle of November, when a temporary spurt in the yen's value brought it up to ¥214 by the end of the month. By mid-December, it had fallen a bit to ¥220 and stayed there to the end of the year. The major differences between the yen and the European currencies were that the yen was unusually high in value at the beginning of 1981, and that other currencies did not experience the yen's short-lived but steep appreciation in November and December.

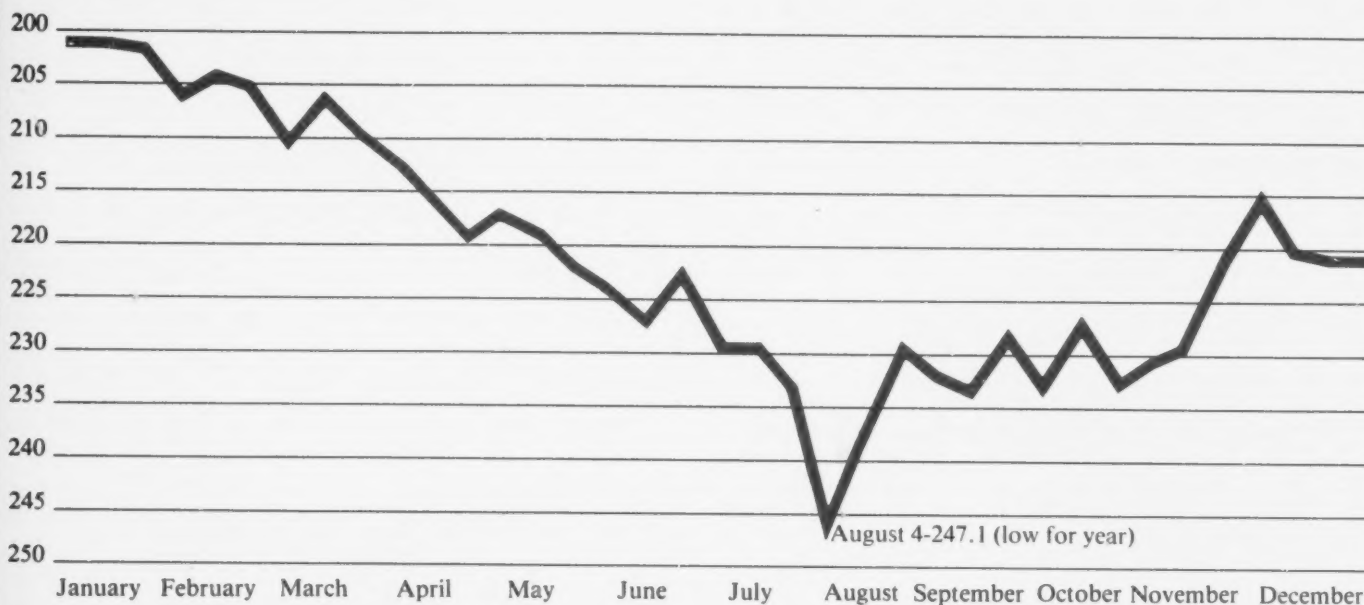
Most of the explanation for the dollar's strength was placed on the high interest rates in the United States. After being in deficit all through 1979 and (at decreasing rates) most of 1980, Japan's balance on current account (merchandise trade plus services and unilateral transfers) was generally in surplus throughout 1981 on a monthly basis. This meant that on a purely trade-related basis, the yen would have been rising as 1981 progressed. In fact, much of the yen's unusual strength in late 1980, bringing it up to the ¥200 level where it began 1981, was due to expectations of a strong movement to trade- and current-account surplus during 1981. However, the forecasts of yen appreciation were not fulfilled.

As Japan moved to consistent monthly current-account surpluses, the increased demand for yen was offset by an increased demand for dollars related to capital outflow because of the low Japanese interest rates. Despite some manipulation of capital restrictions to encourage capital inflow and discourage capital outflow, the Japanese government was not able to effectively block the tendency of capital to flow out of the country in response to higher interest rates abroad.

Because U.S. interest rates were perceived to be such an important factor, their

Yen-Dollar Exchange Rate

yen per dollar



Source: Daily median interbank rate on the Tokyo exchange market

decline in late November, combined with expectations that the turnaround was permanent, was responsible for the sudden rise in value of the yen. All currencies had joined in the rise against the dollar after the year's low point in early August on widespread belief that the dollar was overvalued. But with Europe maintaining interest rates as high as those in the United States, its currencies did not show a sharp rise in November and early December. Just as the drop in U.S. interest rates brought yen appreciation, fading expectations of the permanence of that dip caused the yen to begin sliding again before the year was over.

Energy Developments

OPEC Pricing

The most significant energy development in 1981 was the marked differences in pricing strategies among oil producers reflecting an unexpectedly strong drop in demand for oil. Non-OPEC producers in the first six months of the year dropped their prices from an average of over \$39 per barrel to \$35 per barrel. Mexico went even further, dropping its price to \$32 per barrel in early April. OPEC producers, with their relatively higher prices, did not follow suit until Saudi Arabia put forth a determined effort to force down the OPEC price. This effort reflected Saudi Arabia's increasing concern about the future value of its petroleum reserves if the 1979-80 OPEC price increases continued to

stimulate a fall in OECD oil demand due to the development of alternative energy sources and the turn to non-OPEC oil supplies.

As spot crude oil prices fell below the official selling price in early 1981, Saudi Petroleum Minister Ahmad Zaki Yamani announced on April 19 that Saudi Arabia would maintain its current production levels and price until the rest of OPEC cut its official selling price by 15 percent. Since the Saudi and non-OPEC oil was being made available at competitive prices, other OPEC producers were hurt and some had to cut production levels.

At the OPEC meeting held in Geneva on May 25-26, the members made some concessions agreeing to a \$36-\$41 per barrel price and a 10 percent or 1.5 million barrel per day production cut effective June 1. This proved to be insufficient, and as the oil glut continued through the summer several major producers (beginning with Nigeria) were forced to reduce their prices. Saudi Arabia continued its pressure in OPEC at various committee meetings called to discuss further price and output reductions, and Venezuela called for an oil price freeze at \$36 per barrel for two to three years.

On October 29, OPEC again met in Geneva and agreed on a unified price of \$34 per barrel through the end of 1982. Saudi Arabia, having been successful, then stated that it would lower its production levels and increase its price to offset the other OPEC countries' price reductions.

Energy Conservation

OPEC's decision in October to try to stabilize the price of oil reflected a decline in energy consumption in 1981, especially among the OECD countries. The decline began after the second oil-price shock in 1979 and was due to several economic factors. These included the fact that the real energy price to final users rose more sharply in 1979-80 than after the first oil-price shock of 1973-74, a realization that oil prices would stay high, continued implementation of conservation programs and a shift to alternative sources of energy.

The OECD found that the fall in energy demand had produced a cumulative decline in the total energy intensity of production among its members of nearly 8 percent from 1978 to 1981, compared to a fall of only 4 percent during the period from 1973 to 1976. Significantly, the oil intensity of production for the 1978-81 period fell by 23 percent representing advancing technology plus a switch from oil to other forms of energy.

There was some speculation that part of the 1981 decline in oil consumption might be temporary if it was due to either abnormally low levels of output or to excessive and perhaps speculative oil destocking early in the year that was linked to high interest rates and contemplated price decreases. This represented a different scenario for future energy prices than if the decline could be attributed to permanent advances in conservation or switches to alternative fuels. Thus, while 1981 was free from jarring increases in the

price of oil, adjustment to past increases continued and oil supply remained a major concern. One aspect of the concern on the bilateral level was a renewed (but unsuccessful) request to the United States from Japan to institute a cost-saving oil swap as well as Japanese concern over the scuttling of the tripartite coal liquefaction project (see Part VI).

Security and Stability

North-South Relations

North-South relations were the subject of the International Meeting

for Cooperation and Development held October 22 and 23 in Cancun, Mexico. Leaders of eight industrialized nations and fourteen developing nations attended the meeting. At the summit meeting, the developing nations were reminded that a way must be found to solve their economic problems.

The focus of the summit was the issue of global negotiations (GN), a package under which the industrialized and developing nations would continue their discussions at the United Nations. At this forum, the developing nation group hoped to use its leverage to create the "new international economic order." The package would provide for agreements covering energy, currency, trade, commodity stockpiles and development assistance. The United States opposed the global negotiations at the United Nations, where the one country-one vote system would undermine its opposition. France and the United Kingdom pointed out that the definition of the GN was not at all clear, but in spite of the vagueness, every participant except the United States considered the concept a useful one. A more desirable approach, from the point of view of the United States, was a suggestion to establish a series of conferences on each issue, with strict conditions emphasizing each country's individual needs and practical economic progress. Shying away from a new, broad approach, the President indicated support for the proposal only if it would avoid any negative impact on existing international financial institutions such as the International Monetary Fund and the World Bank. At the conclusion of the meeting, all the participants agreed at least to the concept of global negotiations, with the U.S. reservation.

Investment

World investment began in 1981 to adapt to the changing international economic environment created by the second oil crisis by taking on new forms. In 1980, there had been concern over financing the large current deficits of the non-oil producing developing countries. It appeared that short-term borrowing was increasing substantially while longer-

term private finance for long-term industrial and other development projects lagged. In 1981, this trend began to be reversed with short-term finance playing a smaller role, down from \$8 billion in 1980 to \$6 billion in 1981, and an increase in long-term in the forms of direct investment and bank loans. In addition, OPEC financing grew in importance and the IMF lent significantly larger amounts to developing countries.

An OECD special study released in October 1981 stated that while the overall growth rate of international investment slowed in early 1981 it still grew faster than both GNP and domestic investment worldwide. It suggested that this might be because multinational corporations were becoming more adept at adjusting to their international environment than single country firms.

The report stated that new forms of investment were emerging that countered the historical preference for wholly-owned subsidiaries. These included more acquisition of existing firms, turnkey operations, international subcontracting, licensing and technical assistance, joint ventures, complex management relationships, and trilateral cooperation. It was felt that many of these new investment forms grew out of risk avoidance schemes which in the long term might be harmful to both host and home countries involved in investment.

Economic Assistance

As indicated by the Cancun conference described above, development assistance remained a high priority issue among developing countries. During 1981, data were released on official development assistance (ODA) aid flows from members of the Development Assistance Committee (DAC) of the OECD, showing a 1980 increase of 9 percent after adjustment for inflation. This raised the members' ODA/GNP ratio to 0.37 percent. Expectations for 1981 were that ODA would continue to expand at about a 4 percent inflation-adjusted rate. As a major instrument of development assistance in the Asian Pacific, the Asian Development Bank increased its lending in 1981 by 17 percent to \$1.7 billion.

The major concern among development officials, however, was the future role of the United States as an aid donor. Fear continued that the United States would continue to reduce its aid contribution, and it has never accepted the DAC goal of a 0.7 percent ratio of ODA to GNP. While the United States, under the incoming Reagan administration, emphasized the importance of restoring the health of the U.S. economy and greater military preparedness as a contribution to world stability and development, some felt that the world situation was not one in which the largest aid donor

should be decreasing its effort. In that context, Japan has been increasing its effort, as is detailed in Part IV. Japan has taken the route of considering foreign aid as part of the industrial countries' contribution to world stability. With the United States placing more emphasis on military security, Japan has seen itself as specializing more on economic aid to pick up the slack.

Part IV

The Japanese Economy

Economic Overview

Japan weathered the 1979 oil shock better than any other OECD member country, experiencing higher real growth and lower inflation. This gave Japanese policymakers a feeling of confidence in their ability to manage the economy, but in 1981 the strength of the economy was seriously eroded, ending with the first quarterly decline in GNP since 1975. Since inflation was no longer a problem by 1981, monetary policy was eased to stimulate the economy, but its impact was limited and the wide interest differentials between Japan and the West that emerged (as described in Part III) caused the government to refrain from easing policy as much as it wanted. Fiscal policy, on the other hand, was constrained by the overwhelming desire of the government to reduce its dependence on deficit financing. In this sluggish domestic context, demand for imports was stagnant while a weak yen helped exports to grow. This brought a return of a customs-clearance basis trade surplus and a current account surplus for the first time since 1978. With exports the only economic activity showing substantial growth, coupled with the weak performance at home, conditions were ripe for the emerging round of tension with the United States.

GNP Growth

With preliminary statistics showing only a 2.9 percent real growth rate for calendar year 1981, the Japanese economy did not perform as anticipated by the government and most private research institutions. Whereas domestic consumption, residential construction and business investment were expected to sustain an economic recovery, and elimination of excess inventories was generally forecast to be completed by the end of the April-June quarter, domestic demand lacked vigor and

inventory adjustment was prolonged. As a result, GNP growth for the year was below the government forecast level and was highly dependent on net exports. Even this external demand declined in the October-December quarter as a result of the slowdown in world trade. Domestic demand was only an 0.8-percentage point component of 1981's 2.9-percent growth, with external demand accounting for 2.1 percentage points.

Early signals from the economy seemed to bear out the Economic Planning Agency's 5.3-percent economic growth forecast for FY 1981 (April 1981 to March 1982). In the first quarter the economy began to recover, personal consumption and private residential construction accelerated, and Economic Planning Agency head Toshio Komoto remarked in March that "despite wide differences among industries, the economy has bottomed out and is moving in the right direction." Real GNP grew at an annual rate of 3.0 percent in the January-March quarter, and 4.8 percent in the April-June quarter. But prospects worsened quickly, and GNP growth moderated to 3.0 percent in the July-September quarter and plummeted to an annualized drop of 3.5 percent in October-December. By the end of the year, the government had revised its growth forecast for the fiscal year to 4.1 percent, but even that expectation was regarded as unrealistically optimistic.

The FY 1981 projection was based on a number of assumptions: personal consumption and private residential construction would begin to recover; private capital spending, while still sluggish, would hold steady compared with FY 1980; inventory contraction would be completed and investment would resume in the July-September quarter; and the recovery in the domestic sector would reduce dependence on external demand. Instead, consumption was flat (up only 0.6 percent in real terms), residential construction

was unexpectedly slow (down 1.0 percent), and plant and equipment investment as a whole recorded minus growth from January through September (and was up only 1.6 percent for the year)—although the investment levels for big businesses showed an increase. Because small- and medium-scale businesses were constrained by the economy's poor performance, inventory adjustment took more time than expected and was not completed until the summer. Thus even with a large minus figure for the October-December quarter, net exports (up 54.2 percent in real terms for the year) outweighed the domestic sector's contribution to 1981's GNP.

Personal Consumption Spending After the first oil crisis, the decline in real income was borne by the industrial sector and did not affect disposable income. But in the second oil crisis, the decline in real income impaired consumer purchases for a protracted period and sharply reduced consumer demand. Growing at a real, inflation-adjusted rate of 0.6 percent for 1981, it showed no improvement over 1980. Only in the fourth quarter did consumption show any signs of improvement, when it grew at a 2.2 percent real annualized rate, but this was neither dramatic nor necessarily the beginning of a recovery.

Behind the poor performance of personal consumption lay a weak growth of income. Average wages were up 6.0 percent in 1981, less than the 7.0 percent of 1980, although the decline in inflation meant that real wages were up 1.1 percent (compared to a fall in 1980). However, increased income taxes and higher social security payments checked the growth of nominal disposable income, which was up only 3.8 percent in 1981, 1.1 percentage point less than the increase in consumer prices. This drop in real disposable income was hardly conducive to a sizable expansion of consumer spending.

Private Residential Construction Residential construction declined in real terms by 9.8 percent in 1980 and 1.0 percent in 1981, with growth in the first half of the year offset by declines in the second half. New housing starts, which reached an unexpected low of 1,268,800 units in 1980 (down 15.2 percent from 1979), decreased another 9.2 percent to 1,151,700 units in 1981. Rising land prices proved a significant deterrent, offsetting stable construction and labor costs, a decline in prices of materials, and a cut in mortgage interest rates. According to recent studies, the price of a house averaged eight times a

corders and electrical machinery advanced in concert with technological innovations, as did investments in rationalization and labor-saving equipment in the machine-tool and robotics industries. Research and development, and energy conservation equipment were similarly strong, centered on investments in conversion of oil- to coal-burning facilities in the cement, steel, paper and pulp industries.

Capital investments by small- and medium-scale businesses, on the other hand, were stagnant in 1981, held down by depressed levels on personal consumption and residen-

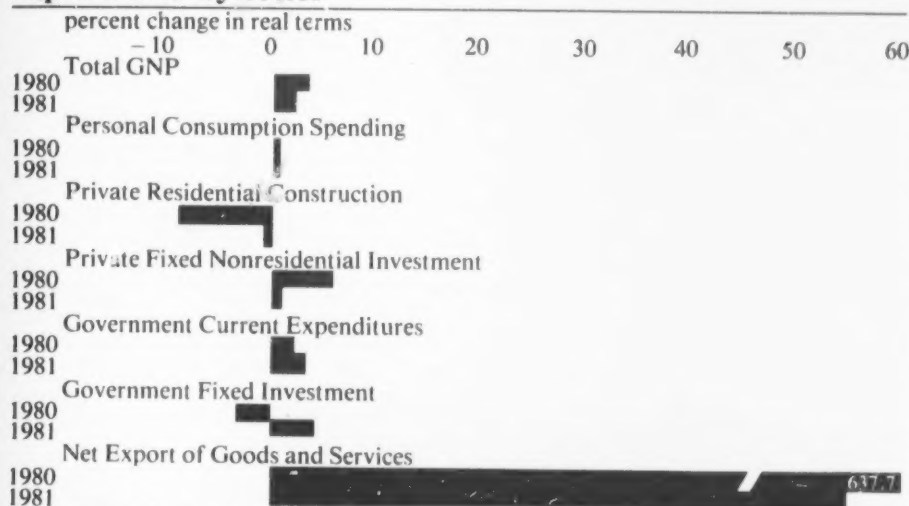
Because of continued working down of excess inventories, industrial production in the first fiscal quarter was only 0.3-percent above the previous quarter, recovering to 1.6 percent in the second quarter of fiscal 1981 and 2.7 percent in the October-December quarter. This increase in production in the final quarter was not matched by rising demand, causing the large jump in inventories. While the completion of inventory liquidation was to have ended early in the year, adjustment was considered to be complete in the raw-material and distribution sectors in the April-June quarter, but was not over in finished goods until the July-September quarter.

Inventory adjustment was also taking place in government-owned enterprises, where not only the rate of change but also the absolute level of inventories in real terms was dropping. This situation prevailed throughout the year, with no renewed growth of inventories in the fourth quarter such as characterized the private sector.

Government Influenced by the restrictive fiscal policy described below, the government sector in the GNP accounts grew relatively slowly in 1981, although it outpaced other sectors of the domestic economy. Unlike the United States, the government account is broken into two parts in the statistics—current government spending and government fixed investment. Current government spending showed a real growth rate of 3.6 percent in 1981, up from 2.3 percent in 1980. Government fixed investment was also up, by a real rate of 4.8 percent, following a decline of 3.5 percent in 1980. These higher real growth rates, however, were the product of reduced inflation rather than more rapid rates of growth in nominal spending. Thus, they were more accidental than deliberate. On a nominal basis, current expenditures grew more slowly than in 1980, while government investment grew at a rate 1.5 percentage points higher than in 1980. This left the increase in total government spending expressed in nominal terms (6.66 percent) virtually the same as in 1980 (6.88 percent). On a quarterly basis, the growth of both current spending and investment was highly uneven, with investment even showing a drop in the fourth quarter—when concern over the poor performance of the economy had been leading government officials to speak of providing modest fiscal stimulus.

External Sector On a GNP basis, net exports of goods and services grew at a real rate of 54 percent in calendar 1981, on the strength of a 16.4 percent growth in exports and a 5.7-percent growth in imports. This was the source of most of measured GNP growth in 1981, as indicated earlier. On a quarterly basis, growth was very uneven, from an annualized real rate of 13.7 percent in the first

Japan's GNP by Sector



Source: Economic Planning Agency

worker's average annual income in 1981. From 1968 to 1981, average annual income increased by 20.5 percent, but home prices increased by about 50 percent.

Private Nonresidential Investment Despite increases in the price of imported crude oil, business profits were robust enough to permit a margin to invest in plant and equipment after the 1979 oil shock. Real capital spending increased by 12.5 percent in 1979 and 6.5 percent in 1980, but slowed to an insignificant 1.6-percent increase in 1981. On a quarterly basis, inflation-adjusted private fixed investment showed small declines (less than one percent at annualized rates) in each of the first three quarters of the year, with growth (at a 5.6 percent annual rate) reappearing only in the final quarter.

However, wide differences were apparent by size of firm. The annual survey on capital spending by large corporations showed an increase of two digits over 1980. Processing and assembling industries, particularly, found the supply-demand situation and the higher profitability of their products favorable for investment. A survey on investment motivation by the Japan Development Bank indicated that expansion of production capacity in seamless steel pipe, video cassette re-

tial building, as well as by high interest rates. Maintenance of a restrictive monetary policy until the first half of 1980 to reduce inflation and correct the deterioration of the international balance of payments limited credit demands from those industries. Without a recovery of consumer spending and housing construction, a renewed rise in investments by these firms was unlikely, since the discount rate had already been cut four times from 9.0 percent in August 1980 to 5.5 percent in December 1981.

Change in Inventories Coming out of the oil shock of 1979, inventories in Japan rose far beyond the levels desired in many industries. As a result, these excess stocks depressed industrial production, pending the adjustment to desired levels. Most institutions erred in forecasting the length of time required for this inventory adjustment, which lasted until the summer. The change in business inventories in 1981 was down 48.8 percent in real terms from 1980, reflecting this adjustment that was taking place in many industries. On a quarterly basis, large declines prevailed through the third quarter, but in the fourth quarter a large increase in inventories reappeared that was attributed to unwanted accumulation as demand failed to grow as expected.

quarter to 103.3 percent in the second, 72.2 percent in the third, and then a devastating drop of 57.6 percent in the fourth.

Rapid growth of net exports began in the second half of 1979, and in 1980 total GNP growth had also been largely dependent upon this sector. Performance in 1981 was not as dramatic as 1980's real growth rate of 637.7 percent, but it did cover up the poor performance of the domestic economy until the reversal came in the final quarter of the year. The shift in that quarter came as the result of a 16.7 percent drop in exports of goods and services while imports continued to expand at a fairly high 10.9 percent rate.

Merchandise trade, services and income received or paid as measured on a national income basis should not be confused with the balance of payments data or customs clearance merchandise trade data, which are measured on a different basis and yield different numbers. These other measures are those usually mentioned when dealing with external economic relations and are covered separately below.

Inflation

As world commodity prices fell (as described in Part III) and economic performance slowed in Japan, inflation subsided to low levels. Wholesale prices were up only 1.7 percent for the year, after rising 17.8 percent in 1980. In the second half of the year, the wholesale price index was essentially flat. A major component affecting the overall wholesale price index is imports, and import price inflation was only 3.2 percent for the year, after rising 47.7 percent in 1980. This index showed a downward trend after August, reflecting the yen appreciation that took place. No longer were imports the cause of high inflation in Japan.

During 1981, Japan also returned to the position of having the lowest consumer price inflation rate among all OECD-member countries. Up 4.9 percent for the year, consumer price increases dropped from 6.6 percent in January (compared to year-earlier levels) to 4.0 percent in December. These low inflation rates reflected the decline in wholesale price inflation and the generally sluggish state of the domestic economy described above.

Monetary Policy

With inflation reduced to a low level and the economy slipping below expectations, monetary policy was eased during 1981 to provide some stimulus. As part of this process, the official discount rate (the rate at which the Bank of Japan lends to commercial banks) was lowered, leaving Japan with interest rates well below those of other industrial countries by the end of the year (as detailed in Part III).

The first of the discount rate cuts was a one-percentage point reduction on March 18 to 6.25 percent. This had been under consideration since the beginning of the year as pressure for it had mounted from the business community and various parts of the government. Lowering the official discount rate is a means to lower the whole interest rate structure of the country, but market-determined interest rates were slow to follow the discount rate down this time.

The issuing interest rate on new government ten-year bonds was cut at the beginning of May, but secondary bond market rates were still rising and went beyond the issue rate, stabilizing around 8.5 percent in the middle of May. Despite a small rise in the government-set rate of interest on new bond issues at the beginning of June, the issue rate was still below resale market rates. This meant that banks and security companies forced to buy the bonds faced potential losses when they chose to resell them. As a result, private-sector buyers refused to take any of the government's July placement of ten-year bonds, forcing the Ministry of Finance's Trust Fund Bureau (which administers the postal savings system) to buy up the entire issue. Buyers were appeased with a rise in the issuing interest rate in August, aided further by a modest decline in U.S. interest rates and a corresponding rise in the value of the yen, which finally allowed market-determined interest rates in Japan to drift down as the government desired.

With the problems of the bond market settled and interest rates moving in the direction desired by the government, monetary authorities felt able to lower the discount rate again, by 0.75 percentage points on December 11 to 5.5 percent. This development came too late in the year, however, to have a noticeable impact on 1981 economic outcomes.

Not only did the government ease monetary policy through the mechanism of lowering the discount rate, but it also eased its window guidance progressively over the four quarters of 1981. Window guidance is the recommended limit on the increase in commercial bank lending made by the Bank of Japan each quarter. For the first quarter, a 6.2 percent increase in the outstanding balance of loans over the same period of the previous year was recommended, while for the second quarter the limit was raised to 6.8 percent, followed by 7.2 percent in the third quarter and 8.4 percent in the fourth quarter. These numbers are only guidelines (albeit the Bank of Japan has means of encouraging compliance), and the actual balance of outstanding loans at the end of the fourth quarter was 10.5 percent higher than a year earlier.

As is evident from the economic performance outlined earlier, easing monetary pol-

icy did not provide much stimulus to economic activity, as both housing investment and private plant and equipment investment did poorly. With interest rates already much lower than in other industrial countries at the end of the year, government officials felt they had reached the limit of easing monetary policy without inducing further capital outflows which would cause the value of the yen to sink and the politically embarrassing trade surplus to rise.

Fiscal Policy

FY 1981 Budget While monetary policy was being eased in 1981, fiscal policy was under continued constraint because of the government's strong desire to reduce dependency on deficit financing. After hammering out a proposal in the fall and winter, the government-proposed budget for FY 1981 passed the Diet on April 2. Total government expenditures for the year were pegged at ¥46.7 trillion (\$211 billion at average 1981 exchange rates), a 9.9 percent increase over the previous fiscal year (the lowest rate of increase in 22 years). General expenditures other than government bonds and local revenue-sharing were up only 4.3 percent—the first time since 1956 that the growth of general expenditures was held below 5 percent. Substantial increases were granted only to defense (7.61 percent), social welfare (7.60 percent) and energy measures (17.3 percent). New issuances of government bonds, the focus of the debate on deficit financing, were cut by 14 percent to ¥12 trillion (about \$56 billion). Dependence on government bonds in the budget was to be 26.2 percent, based on preliminary estimates of tax receipts during the coming year. In order to compensate for the reduced reliance on government bonds, tax increases of ¥1.3 trillion (about \$6 billion) were passed by the Diet.

This budget meant that the government provided very little fiscal stimulus during calendar 1981. Because the government decided to implement 70.5 percent of public works spending in the first half of the fiscal year, government fixed investment as shown in the GNP statistics increased only until the July-September quarter. Even the business community, which normally favors policies to stimulate the economy, favored fiscal restraint. However, the tax increases instituted were the largest in history. Business was unhappy with this government policy to reduce the deficit through increasing taxes, and brought pressure to bear on the government to reduce expenditures, articulated through the administrative reform committee discussed below.

FY 1982 Budget Process The government took even more extraordinary steps in setting the framework for fiscal 1982's budget. The

Prime Minister, whose strict adherence to reduced budget deficits was already well known, announced in April that ministry budget requests should be at the same level as FY 1981 in order to eliminate the necessity of further tax increases. In response, the Ministry of Finance set in June a "zero ceiling" in principle on budget requests for FY 1982, two months earlier than usual. The only exceptions were for expenditures on defense, economic cooperation, energy, obligatory personnel costs and pension payments.

According to the budget draft for fiscal 1982 approved by the Cabinet at the very end of 1981 (later passed unchanged by the Diet), the total increase in expenditures was limited to 6.2 percent. With the exception of public bond debt service and payments to local governments, overall expenditures were to increase by only 1.8 percent, the lowest increase since fiscal 1955. Defense expenditures, however, were to climb 7.75 percent, up from the first-draft 6.5-percent increase originally proposed by the Ministry of Finance—a result of high level negotiations. Defense's share of the gross national product was estimated to be 0.93 percent and its ratio to the total budget was 5.2 percent.

In compiling the budget, the government's first priority was to reduce issues of new public bonds by ¥1.8 trillion and ultimately to phase out borrowing by fiscal 1984. As a result of this policy, expenditures for public works were to remain at the same level as in FY 1981, although funds for housing construction were to be strengthened. A jump in funds for economic cooperation and energy development of 10.8 percent and 13.2 percent, respectively, reflected the emphasis on national security, while social welfare and education programs increased only 2.8 percent and 2.6 percent, respectively.

An expected shortfall in FY 1982 fiscal revenues of ¥700 billion (\$3.2 billion) forced the government to move either to cut expenditures further or raise taxes and other revenues to achieve the deficit reduction goal. The outcome of this imbalance was the decision to opt for the latter alternative and increase taxes and non-tax revenues, thus collapsing the Prime Minister's promised fiscal reconstruction scenario without increasing taxes.

Again, as in 1980, the defense increase in the budget became a major policy dispute. Originally, the Finance Ministry proposed a 6.5-percent increase. Even when it later relented and moved to a 7.5-percent ceiling, however, fierce lobbying by the Defense Agency and Liberal Democratic Party (LDP) members active in defense and foreign policy areas further softened the resistance of Finance officials. As a result, the increase in defense rose to 7.71 percent and finally to 7.75 percent. Ultimately, Prime Minister Suzuki yielded to pressure from LDP mem-

bers, and negotiations between Finance Minister Watanabe and Defense Director-General Ito resulted in the restoration of funds for seven P3C anti-submarine surveillance planes and 23 F15 fighters which had earlier been scrapped.

Administrative Reform The concept of administrative reform was a sensitive topic in Japan during 1981. Since the reconstruction after World War II, only two reforms were actually legislated, both in 1967 when Prime Minister Sato was able to eliminate one bureau in each ministry and reduce the maximum number of civil servants by 5 percent.

As Japan's economy weakened in the 1970s, further attempts began to be made at administrative reform. By 1981, when Prime Minister Suzuki established the second Commission on Administrative Reform, he vowed that he would stand or fall on the issue of implementing the recommendations of the commission. In addressing the first meeting, Prime Minister Suzuki told the commission: "Reorganization of the government is an urgent task from the point of view of fiscal reconstruction. Future tax increases will not be supported by the public. We must reconstruct the fiscal structure by cutting inefficient government expenditures, simplifying government machinery and retrenching government administration..."

On July 11, the Commission submitted to the Prime Minister its first report. Citing swelling expenditures which were nondiscretionary, and arguing that government spending should be reduced, it called for immediate expenditure cuts and administrative rationalization. The Commission was to submit its second report in June 1982 and a final report in 1983.

The first report had three parts which included: (1) the goals of government reform, (2) measures for immediate reform, and (3) areas for future study. In the first part, it specified the establishment of a vital society and Japan's increasing contribution to international affairs as basic concepts. The major concerns of the Commission were the swelling expenditures for welfare and education, which were nondiscretionary, causing increases during periods of wage and price hikes, and the budget for public works, which was expanded in the late 1970s to stimulate the economy.

In the second part, it cited expenditure cuts and administrative rationalization as targets for immediate reform and proposed: (1) a cut in subsidies (10 percent), (2) review of the policy of free school textbooks, (3) curtailment of public works, and (4) a curb on the number and wages of civil servants. Third, it cited areas for further study, including review and reform of administrative organization and management, functions of local government

and the role of public and private sectors. Specifically, it suggested reversion of the management of government corporations to the private sector. Separately, the report recommended full disclosure of information and the introduction of a government ombudsman.

Energy Policies

Energy Conservation

There has been general agreement in Japan on the need to promote energy conservation.

As in many other industrialized countries, energy demand fell in the last decade even though the economy continued to grow. In FY 1980, the economy grew by 3.8 percent but energy demand was reduced by 3.4 percent and petroleum consumption by 10.1 percent.

In 1981, the Japanese government continued to stress the need for energy conservation. In January, the Overall Energy Policy Committee set the oil consumption reduction target for FY 1981 at 8 percent. It also began to implement a variety of measures announced at the end of 1980 in response to strains produced by the Iran-Iraq War.

Because industry consumes not quite 60 percent of all energy in Japan (compared to only about 37 percent in the United States), many conservation measures were directed at that sector. Both financing and tax incentives were made available to industry. Loans for conservation were available from the Japan Development Bank, the Small Business Finance Corporation and the National Finance Corporation. There were national tax credits applicable for three years for the promotion of energy policies that allowed either a special depreciation for the installation of conservation equipment or a tax deduction for the investment in conservation equipment. There were also some local tax concessions.

Residential conservation was also encouraged in 1981 primarily through public education material released by the Energy Conservation Center. February was also declared energy conservation month to increase public awareness.

Alternative Energy Sources

A major component of Japan's energy policy has been the introduction of viable alternative energy sources. The development of alternatives was not without problems in 1981 as the issue of nuclear waste became a major concern with the expanded operation of nuclear plants, and the United States backed out of a joint research and development effort on coal liquefaction.

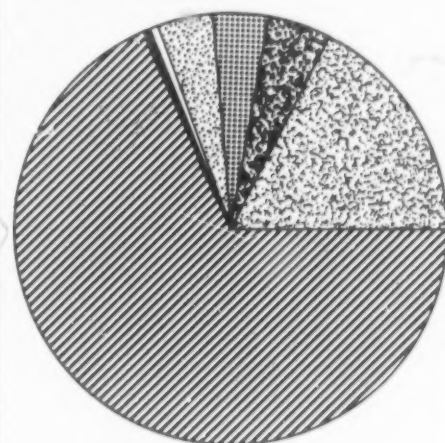
Nuclear The Research Committee on Comprehensive Energy, an advisory group to the Ministry of International Trade and Industry, published a report in 1981 pointing out that

nuclear energy had the most potential and was the most realistic alternative to oil, and that it would sever the link between the world economy's growth and increased oil consumption. The group proposed that Japan promote the exploration and development of uranium and increase its output of enriched uranium. By the year 2000, the group said, domestic uranium enrichment plants should produce 3,000 SWU (separate work unit) tons annually.

Energy Supply in Japan

fiscal year 1980

Total Supply 430 Million Kiloliters
Oil Equivalent



- Petroleum
- Coal
- Nuclear Power
- Natural Gas
- Hydroelectric Power
- Geothermal
- Other

Source: Ministry of International Trade and Industry

The proposal also asserted that domestic uranium enrichment was crucial for Japan's nuclear energy development, since total dependence on overseas technology is unreliable and linked to policy changes on nonproliferation. A pilot plant for uranium enrichment was operating at Tokaimura, but the operation was still experimental and subject to bilateral discussions with the United States (covered in Part VI). The council pointed out that nuclear plant exports were a viable source of global alternative energy development, particularly for the non-oil producing developing countries.

Japan, however, in its efforts to expand nuclear energy power plants, ran into difficulty locating additional plants because of the

climate induced by the Three Mile Island accident in the United States. This was compounded by the discovery of a series of radiation leaks at the Tsuruga nuclear plant in Fukui Prefecture, the company's attempts to cover up the damage, and the employees' exposure to radiation, all of which shocked Japan when the news was reported on April 18. The Tsuruga nuclear accident occurred within days of the American nuclear submarine's collision with a Japanese cargo ship—an unfortunate coincidence which heightened the smoldering anxiety about uses of nuclear energy.

Electric power companies, nuclear power supporters and the Resource and Energy Agency of the Ministry of International Trade and Industry made a great effort to enhance the safety of the plants and establish an impressive credibility. They managed to reduce breakdowns and improve the quality of management and operations. These efforts raised the operating rate to 61.0 percent for FY 1980. At that rate, nuclear power plants provided approximately 82 billion kilowatt hours and supplied 15.0 percent of total electric power (and 5.0 percent of all energy supply). The enhancement in the nuclear operating rate contributed to a decrease in oil consumption for electric power in FY 1980, which confirmed the decision of the electric power companies and the Resource and Energy Agency to maintain policies to increase the operating rate of nuclear power plants in FY 1981.

In 1981 there were 22 nuclear reactors in commercial operation. In terms of the capacity of operating nuclear power plants, Japan was third in the world behind the United States and France, but was planning the construction of three additional plants.

Coal An advisory council on overseas coal supply was set up in the Agency for Natural Resources and Energy in January 1981. Steady replacement of oil-burning facilities caused coal imports to reach 72.7 million tons in FY 1980, a 23-percent increase from the previous year. Domestic production was 18 million tons.

Coal was also emphasized in the government's alternative energy policy in the FY 1981 budget allocations. The New Energy Development Organization (NEDO) was set up to consolidate various alternative energy development projects. Included were overseas coal development, assistance to industries shifting from oil to coal, funding for construction of coal-fired electric power plants, and assistance to utility plants converting from oil to coal.

In another coal-related development, a proposal issued August 4 by the Coal Mining Industry Council, directed by Yoshihiro Inayama, chairman of Keidanren, recom-

mended an increase in coal production from 18 million tons annually to 20 million tons. Although the same goal was set in 1975, domestic production had remained static at the 18-million-ton level; in fact, domestic production fell slightly from 18.0 million tons in 1980 to 17.7 million tons in 1981. This time the proposal recommended streamlining existing mines through mergers and corporate tie-ups, developing new mines and reopening facilities that had been closed. It also recommended that the price should reflect overseas coal prices.

In submitting the report to MITI Minister Rokusuke Tanaka, the Council pointed out that continued government assistance (around ¥150 billion in 1981) was essential and proposed an extension of the coal mining rationalization law due to expire in 1982. It recommended that further financial assistance be budgeted from the alternative energy-development account.

Oil Supply and Demand

1981 Oil Consumption Statistics compiled by the Ministry of International Trade and Industry (MITI) show Japan's imports of crude oil for 1981 totaled 230 million kiloliters, down 10.4 percent from the 1980 total of 257 million kiloliters. The decline was attributed to the sluggish demand for petroleum products as a result of slow economic growth, high levels of oil reserves and the global oil glut. Industrial demand for petroleum products also dipped, indicating that progress in energy conservation and a shift to alternative energy resources was continuing.

By region, oil imports from the Middle East amounted to 159 million kiloliters, accounting for 69 percent of the total. This share was down from 73 percent in 1980, mainly due to the drop in imports from Iran and Iraq. Imports from Southeast Asia, including Indonesia, were about 46 million kiloliters, also a drop from 1980. Japan also imported 5.5 million kiloliters of oil from Africa and 8.9 million kiloliters from Latin America, both up slightly over 1980.

Long-Term MITI Forecasts A MITI forecast of oil imports was released in 1981 which revised downward estimated oil imports over the period from FY 1981 to FY 1985. This estimate then went to the oil advisory council composed of academicians, businessmen and other specialists for comment and approval.

At the Tokyo industrial-nation summit in 1979, Japan had committed itself to an oil-import target for 1985 of 6.3 million barrels per day. The new forecast reduced that amount by 9.5 percent to 5.7 million barrels. The revision reflected the actual oil import levels for FY 1980. According to the medium-term forecast issued in 1980, FY 1980 imports were expected to be 5.4 million

barrels per day, but the actual outcome was only 4.85 million barrels. Although that result was affected by temporary factors such as the cold summer which reduced air conditioning requirements, the government concluded that the reaction of industry and households to the service price increases would yield a permanent drop in oil consumption. This reaction represents both energy conservation measures as well as a shift in energy usage away from oil. Working from the actual result for FY 1980, MITI forecasted a 3-to-4 percent annual increase in oil imports, with the shift from oil evident in the fact that this growth rate was lower than the government's economic growth forecast.

Refining Industry Problems Japan's oil industry cut refinery production in July by 15 percent over the same month of 1980, based on administrative guidance from MITI. The production cut was aimed at assisting the oil industry, whose profits had plunged due to a combination of stagnant demand and the depreciation of the yen. Price increases announced in April had not been passed through onto the market, and the production cut was expected to resolve the glut of oil products, raise prices and improve the profits of Japan's oil industry. As the yen declined against the dollar, the import price (c.i.f.) of crude oil on a yen basis increased to ¥53,500 per kiloliter in May from ¥45,950 per kiloliter in January. The industry found it difficult to pass on such increases to their customers in the face of declining domestic oil demand.

The short-term measures involving production cuts or fixed prices did not address the industry's structural problems, however, which included technological changes, the development of alternative sources of energy, and a long-term decline in demand for oil. In order to decide how to cope with the industry's structural problems, the oil industry advisory council issued an interim report to MITI.

As expected, the interim report avoided suggesting mandatory price supports for refined oil products, but recommended that the administrative apparatus for implementing such supports be established so that the program could become operative quickly if necessary. It further recommended that any future decision on price supports take into consideration the effect of the output cutbacks enforced since July, price changes of refined products since that time, the yen-dollar exchange rate, and OPEC pricing decisions. Other recommendations in the interim report dealt with longer-term adjustments, including scrapping excess plant capacity and reducing the number of primary sellers of refined products. A final point was the establishment of cooperative facilities for handling imported crude oil.

Trade and Payments Data

Merchandise Trade
Japan's merchandise trade surplus grew enormously to \$20 billion (from \$2.1 billion in 1980), almost recovering to its 1978 peak of \$24.6 billion. The surplus was mainly brought about by 17.9 percent increase in merchandise exports while merchandise imports increased by only 4 percent. The major export increases came in the areas of machinery, shipbuilding, heavy industry and chemical products and metal products.

Japan's Balance of Payments, 1981

billions of dollars	-16	-12	-8	-4	0	4	8	12	16	20
Merchandise Trade Balance										
plus net Services and Transfers										
equals Current Account Balance										
plus net Long-term Capital										
equals Basic Balance										
plus net Short-term Capital										
plus Errors and Omissions										
equals Overall Balance										

Source: Bank of Japan

Services and Transfers Partially offsetting the merchandise trade surplus was a record deficit of \$13.7 billion in services. In Japan, as services trade has gradually expanded, it has remained in deficit, and that deficit has consistently widened.

Compared to the United States, the size of Japan's global services trade is relatively smaller than merchandise transactions. In 1981, Japan's services exports were only 26.5 percent as large as merchandise exports, and services imports were 41 percent the size of trade in goods.

The largest category of services trade for Japan was transportation, accounting for 39 percent of service exports and 35 percent of imports in 1981, leaving a large \$3.2 billion deficit. Investment income was almost as large a share of service exports, at 39 percent, but a smaller 31 percent share of service imports, leaving a deficit of \$857 million. This represented a shift from 1980, when Japan managed to show a net surplus of \$1 billion on investment income. Another substantial category of services trade is travel, making up 2 percent of service exports and 8.7 percent of

imports, for a large \$3.9 billion deficit. Royalty transactions also remained in substantial deficit even though Japan has become more of a technology exporter than it used to be. The net deficit on royalties in 1981 was \$1.2 billion, slightly larger than 1980's deficit.

Because Japan is a donor rather than a recipient of foreign aid, it has a deficit on unilateral transfers as well. In 1981 this deficit came to \$1.6 billion, up from \$1.5 billion in 1980. This was largely the result of an increase of official outflows from \$1.4 billion to \$1.5 billion. Private outflows and unilateral transfer receipts were little changed.

Current Account The total of merchandise

trade, services and unilateral transfers yield the current account balance. The surplus on this balance came to \$4.7 billion, recovering from two years of record deficits in 1979 and 1980. The turnaround in Japan's situation started in the second quarter after a first quarter deficit of \$2.1 billion. The economy recorded a \$1.5-billion surplus in the second quarter which grew to \$3.5 billion in the third quarter. A slight downturn occurred in the fourth quarter with the surplus falling to \$1.8 billion.

Capital Flows and Official Reserves

After one year in 1980 of net inflows of long-term capital, Japan returned in 1981 to having net outflows, a pattern which has held true for many years. The net outflow of long-term capital was \$6.5 billion for the year. The only quarter registering a net inflow during the year was January-March, with an inflow of \$2.5 billion. The switch to a net outflow can be attributed in part to the large interest rate differential that existed between Japan and the rest of the world (see Part III) and to the decrease in investment activity in Japan by Mideastern nations. There had been consider-

able portfolio diversification away from the United States and into Japan by these countries in 1980, but by 1981 this had been completed.

The basic balance (current account plus long-term capital) had a \$1.7 billion deficit, much smaller than either the \$21.1-billion and \$8.3-billion deficits of 1979 and 1980, respectively.

Short-term capital also registered a small net outflow of \$822 million, a change from 1980's net inflow of \$3.1 billion. Except for 1980 and the years of the first oil crisis, this account has generally been in surplus. The short-term capital outflow and a small positive entry for errors and omissions yielded an overall balance (basic balance plus short-term capital plus errors and omissions) deficit of \$2.1 billion, down from \$8.4 billion in 1980. By quarter, the overall balance registered surpluses of \$2.4 billion in January-March and \$1.4 billion in July-September, and deficits of \$4.6 billion in April-June and \$1.4 billion in October-December.

As an accounting identity, the overall balance deficit is equal to the balance on monetary movements—the flow of foreign currency in or out of the country. In 1981 official gold and foreign exchange reserves rose by \$3.2 billion because the limited intervention in the exchange market to prop up the yen was more than offset by interest earnings on reserves. "Other" monetary movements showed a deficit of \$5.3 billion, representing the private flow of cash abroad. This was smaller than the \$13.3 billion private outflow of 1980, reflecting the smaller 1981 overall balance deficit.

Customs Clearance Trade Data

Completely separate from the balance of payments data, Japan publishes merchandise trade data on a customs clearance basis in which exports are measured f.o.b. and imports, c.i.f. (cost including freight). For balance of payments purposes, the insurance and freight costs of imports are included within services rather than merchandise trade. For some purposes, however, the customs clearance data provide a better concept of the costs and receipts from merchandise trade. Using this accounting, Ministry of Finance trade statistics show Japan's global trade surplus for 1981 was \$8.9 billion—the third-largest surplus in Japan's history, and a dramatic reversal from 1980's record deficit of \$10.7 billion. Exports were \$152.1 billion, up 17.1 percent, and imports totaled \$143.2 billion, up 2 percent. In both categories, the levels reached an all-time high. Measured in yen, the surplus was ¥2 trillion, recovering from a record ¥2.6 trillion deficit in 1980.

Exports continued to grow in 1981, though at a slower pace than in 1980, with the dollar value of exports expanding at an aver-

age rate of 17.1 percent compared to over 20 percent in 1980. The export growth rate was lopsided, registering its highest growth of 36 percent in January (compared to year-earlier levels), falling rapidly to 20 percent in May, 13 percent in September and down to only 1 percent in December. Thus, the year ended with a surplus mainly because of the large expansion of exports early in the year. The leveling off was in part due to the imposition of various export restraint agreements to the United States and the European Community. Another factor was the sluggish growth in other industrial countries, as detailed in Part III.

Imports also rose but at a much slower pace than exports, expanding at an average rate of only 2 percent. In the first three months, imports expanded at an average rate of 10.3 percent but then registered negative growth from June through October (except for September when the rate stood at 1 percent). The final two months of the year showed some recovery with imports again growing at an average rate of 2 percent.

Trade by Region The trade surplus in 1981 reflected a growth in exports to all areas of the world. The developed countries accounted for the largest increase over 1980 in exports, with a 20.4-percent increase, but the developing world was not far behind with a 15.8-percent increase. The communist bloc accounted for only a 3.9-percent increase. Imports also contributed to the size of regional trade surpluses by their slow growth. Imports from the communist bloc registered the largest ease at 15.8 percent, while those from developed countries grew at only 4.5 percent and those from the developing world fell by 0.6 percent.

Within the developed world, exports to

the United States totaled \$38.6 billion, up 23.1 percent, and imports totaled \$25.3 billion, up 3.6 percent, bringing the bilateral trade surplus to \$13.3 billion—topping the previous high (\$10.1 billion) in 1978. Exports to the European Community also grew 13.5 percent to \$18.9 billion with imports showing a 9-percent rise to \$8.6 billion, for a trade surplus of \$10.3 billion, surpassing the previous high in 1980.

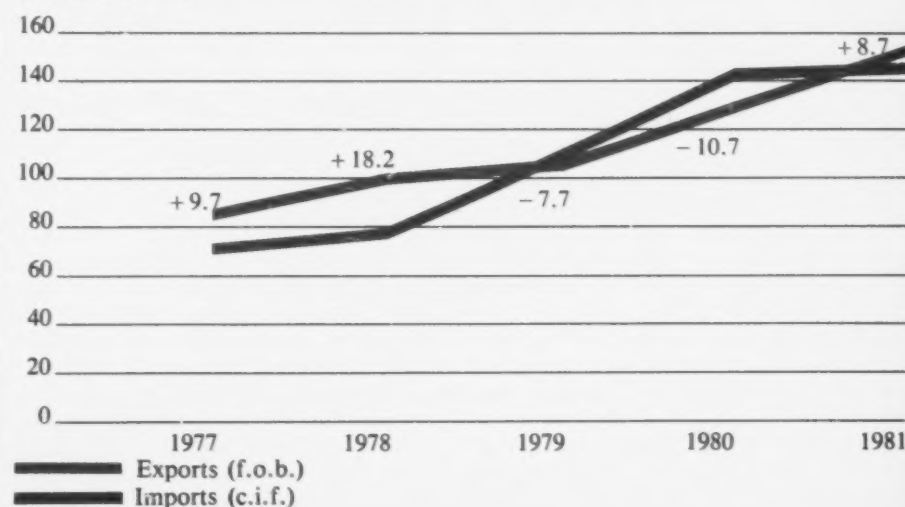
The trade deficit with the Middle East decreased to \$24.9 billion, down from \$30.1 billion. This drop represented an increase in exports of 23.5 percent from \$14.4 to \$17.7 billion coupled with a 4-percent decrease in imports from \$44.5 to \$42.7 billion, reflecting mainly the drop in crude oil imports discussed earlier. In another major area of trade, Southeast Asia, exports increased 11.4 percent to \$34.4 billion and imports totaled \$31.9 billion, up only 0.6 percent, turning Japan's 1980 deficit of \$8.4 billion into a \$2.5 billion surplus in 1981. The surplus represented Japan's growing interest in the newly industrializing countries of Southeast Asia—Korea, Taiwan, Hong Kong and Singapore—as well as a leveling off of petroleum imports from Indonesia.

Within the communist bloc, trade with Eastern Europe declined in both export and import categories but rose for the area as a whole. Imports, interestingly, rose faster than exports, with those from the U.S.S.R. increasing 8.6 percent and those from the PRC increasing rapidly at 22.4 percent. This reduced Japan's surplus with the area from \$2.5 billion to \$1.8 billion.

Exports by Product The 17.1-percent growth in the dollar value of exports in 1981 was considerably below the 1980 level of a 26-percent expansion. However, almost all export categories showed growth.

Japan's Customs Clearance Merchandise Trade

billions of dollars



Some of the highest rates of increase occurred in the machinery and transportation equipment sector, which was up overall by 21.4 percent over year-earlier levels. Items falling under nonelectric machinery, up 25 percent, included: office machinery (up 15.7 percent), heating and cooling equipment (up 67.7 percent), and machine-tools (down 18.4 percent). Electric machinery exports were up 20.2 percent, with telecommunications equipment up 20.1 percent. Transportation equipment also rose by 20.1 percent, with ships up 55.1 percent, passenger cars up 14.5 percent (compared to 34.7 percent in 1980) and assembled trucks and buses up 29.7 percent.

Basic manufactured products rose only slightly, up 8.1 percent. Natural-fiber textile (excluding apparel) exports rose by 14.5 percent and nonmetallic mineral manufactures, including such items as china and glass, rose by 13.9 percent. The important export category of iron and steel products did poorly (up only 7.9 percent), compared to a 9.5 percent growth rate in 1980. The growth in this category was almost entirely due to a 52-percent increase in exports of tubes, pipes and fittings since the other two major categories of bars, rods, shapes and sections, and universals, plates and sheets were down by 9.3 percent and 7.4 percent, respectively.

Other export items registering large increases were tape recorders (up 64.2 percent), audio and video tape recorders and players (up 54.3 percent) and scientific, medical and optical instruments (up 21.8 percent).

Imports by Product As in 1980 and 1979, mineral fuels were the most important import, accounting for just over 50 percent of the value of imports, showing an increase of 3.7 percent. Broken down, coal totaled \$5.5 billion, up 23.7 percent, petroleum and petroleum products totaled \$58.7 billion, up 1.4 percent, and natural and manufactured gas totaled \$8.4 billion, up 8.9 percent. The large increase in coal followed an even larger 25.6-percent increase in 1980 and was primarily in the form of coking coal used in steel production. It should also be noted that crude oil imports actually declined in quantity despite the 1.4 percent rise in value.

Agricultural imports, an area of continuing friction with the United States (discussed in Part VI), totalled \$15.1 billion and grew faster in 1981 (8 percent) than in the previous year (2 percent). Both meat and fish products rose in value after declines in 1980, with meat up by 26.5 percent and fish by 20.7 percent. Grains and cereals also rose by 12.7 percent, led by increases in corn, wheat and sorghum. Unmanufactured tobacco totaled \$422 million, up nearly 16 percent.

Chemical imports were up 4.6 percent in 1981, to \$6.5 billion. Within this category, chemical elements and compounds rose 6.8

percent to \$3 billion and pharmaceuticals were up 7 percent to \$1.2 billion.

Imports of basic manufactured products fell by nearly 4 percent. Within this category, leather, wood manufactures and textiles registered small increases while metal products and nonmetallic mineral manufactures such as glass declined.

Machinery and transportation equipment, increased 5.5 percent, to \$9.2 billion. Nonelectric machinery was down 5 percent, electric machinery and transport equipment rose respectively, 9.2 percent and 32 percent. Individual items in this category of importance are office machinery (down 0.5 percent), electronic tubes and semiconductors (up 10.7 percent), passenger cars (down 27.9 percent) and aircraft (up 35 percent).

Concern Rising Over Trade Surplus Economic Policies

Primarily in response to foreign concern over

Japan's rising trade surplus, the Japanese government took several measures during 1982 aimed at reducing it and easing trade friction. The need to lower tariff and nontariff barriers to imports became increasingly apparent during the year as is detailed in the many bilateral meetings included in Part VI.

Accelerated Tariff Cuts The first step the Japanese government took was the acceleration of already scheduled tariff cuts. In May, it was announced that Japan was prepared to join the United States in reducing the tariff on integrated circuits (ICs) to 4.2 percent in 1982 instead of waiting until 1987 as stipulated in the Tokyo Round agreement. Later in the year, immediately after the Cabinet reshuffle, Prime Minister Suzuki ordered that the overall tariff reduction schedule stipulated in the Tokyo Round be accelerated by three years in 1982. The Prime Minister also announced the establishment of a research council within the Liberal Democratic Party to study eliminating nontariff barriers and other trade issues, indicating that the party and the government were moving on trade issues.

The Finance Ministry began to prepare the accelerated tariff reductions on over 1,600 items to take effect in April 1982. The Tokyo Round agreement calls for annual tariff reductions of one-eighth of the total agreed amounts of each of the eight years, over 1980-1987. The Finance Ministry planned to cut the tariff rate for FY 1982 by three-eighths of the total agreed amounts. This was to reduce the average tariff on dutiable items by about 2 percentage points, based on the GATT-bound rates prior to the Tokyo Round agreement. The loss of revenue was expected to amount

to about ¥42 billion, but the Finance Ministry expected the loss to be offset through an increase in imports.

Encouragement of Imports The enlarging trade surpluses and resulting criticism by the EC of Japan's low rate of imports of manufactured goods to total imports also prompted Minister Rokusuke Tanaka of the Ministry of International Trade and Industry (MITI) to issue a statement concerning Japan's intention to promote such imports. In a July 14 Cabinet meeting, MITI's policy was approved and Prime Minister Zenko Suzuki instructed related ministries, including Finance, and Agriculture, Forestry and Fisheries, to cooperate with the policy. As a first step, the government decided to dispatch import-promotion missions, arrange for additional export-promotion programs and aim for a wider range of trade fairs.

Cabinet Secretary Kiichi Miyazawa said after the Cabinet meeting that the government would immediately study the emergency import measures (see below), and MITI held meetings with the Japan Trade Council, the Japan Department Store Association and the Japan Chain Store Association to request their cooperation. In addition, the government formed a committee, chaired by the Prime Minister, to promote this new policy.

Consideration of Emergency Imports As a final step, the government restudied the steps taken in FY 1978. At that time, MITI accelerated the volume of imports through an emergency import program that included stockpiling such metals as nickel, cobalt and chromium, purchasing aircraft for leasing to foreign airlines, and payments for future deliveries of uranium. As Cabinet Secretary Kiichi Miyazawa observed, however, the 1981 situation differed from FY 1978 in that the yen had become weaker against the U.S. dollar, interest rates were higher than in FY 1978 and the budget had less flexibility than before. Moreover, he added, Japanese smelting and processing companies already had a large inventory of metals, and prices of these commodities have been at record-high levels. Leasing of aircraft was discounted as a possible solution because changed reporting rules meant that the transactions were now recorded statistically both in imports and exports, so that they would not lower the trade surplus figure. As for uranium, 1981 stocks were considered adequate until 1980. In any case, the MOF was reluctant to consider emergency imports at a time when fiscal constraints were so severe. Thus, no emergency import program materialized.

Foreign Aid

A Foreign Ministry report released in 1981 warned that ODA was a price the nation must

pay to build a more stable international order and thereby ensure comprehensive security for Japan. As part of that effort, Prime Minister Zenko Suzuki pledged at the Cancun summit meeting to more than double Japan's cumulative official development assistance (ODA) during 1981-1985 to \$21.4 billion, from the 1974-80 level of \$10.7 billion.

At the end of the year, a boost in ODA proved no problem for the Finance Ministry, which raised ODA in the FY 1982 draft budget over the originally proposed 9-percent increase to 11.4 percent, or ¥441.7 billion (\$2 billion) for FY 1981. With the addition of yen loans to developing countries, total ODA was to come to about ¥950 billion (\$4.3 billion), 0.34 percent of Japan's GNP, up slightly from the ratio for FY 1981. The ODA budget is disbursed by the Foreign Ministry, MITI, and other project-related agencies including the Export-Import Bank of Japan.

In the Foreign Ministry, an extra ¥1.1 billion (\$5 million) over the original budget proposal was approved by Finance, a very unusual move which prompted praise from Foreign Minister Sakurachi and senior officials for the Finance Ministry's appreciation of foreign aid as an arm of Japan's comprehensive security concept. Both the Liberal Democratic Party and the opposition parties endorsed the position that Japan's contribution in foreign aid should fill the gap left by its limited defense role. Although foreign aid experts insisted that increasing the amount of aid was not enough and that an assessment of the effectiveness of individual projects was critical, it seemed that augmenting foreign aid was acceptable to both the public and to the political parties.

The major foreign aid issue of the year grew up around the Korean government's formal request of \$6 billion from Japan in economic assistance at the end of August. It was maintained by the government of South Korea that its defense efforts in the Korean peninsula, which support Japan's vital interests, should be shared by Japan. The Japanese government strongly objected to such a linkage, even though stability in the Korean peninsula was an essential condition for peace. More than anything else, the size of Korea's request—\$6 billion over the next five years—surprised the Japanese government. Japan's total economic assistance for that period, assuming its pledge to double official development assistance was to be achieved, would be \$21.4 billion, of which \$10.5 billion was slated go to Asian developing countries. Government loans to South Korea in 1980 amounted to less than \$100 million. At the end of the year, both governments appeared to be moving slowly toward reaching an agreement on the issue.

Capital Investment Policy

MOF Policy on Investment Flows The Japanese government tried to foster long-term capital inflows in view of the rapidly expanding current-account surplus in 1981. The Ministry of Finance hoped to thus ease foreign criticism. Unwilling to rely entirely on market forces to determine the flow of capital, the MOF used its powers over bond issues to influence developments on both foreign bond issues in Japan and Japanese issues abroad. Late in the year it was decided that the monthly limit on new bond issues in Japan by acceptable foreign organizations (such as the World Bank) would be raised from January of 1982. For public offerings the monthly limit was to rise from ¥50 billion to ¥70 billion. Private offerings were to be allowed to increase from ¥12 billion to ¥15 billion. These limits were to be reviewed again at the end of the first quarter of 1982.

At the same time, a second move restricted Japanese issues in the Eurobond market, in response to direct pressure from European securities dealers as well as balance-of-payments motives. Large issues of Japanese bonds were blamed for declining bond prices (i.e., rising interest rates) in the Eurobond market. The drop prompted a rash of complaints and the MOF moved to apply effective pressure on Japanese securities dealers, and all new issues were temporarily halted. Toward the end of the year, the MOF decided that new monthly issues would in the future be limited to one per week for a total of \$500 million per month.

By encouraging capital outflow and discouraging capital inflow through these means, the MOF hoped to keep the basic balance (the current-account balance plus the balance on long-term capital) in deficit. It then hoped to counter foreign criticism of the current-account surplus by pointing to the basic balance deficit. Japan did not entirely escape criticism, however, since it was using government regulatory policies rather than relying entirely on market forces to encourage capital outflow but most of this criticism did not materialize until 1982.

Foreign Direct Investment Foreign direct investment by Japanese companies on an approval or application basis declined 6.1 percent during the fiscal year ending in March 1981 to \$4,693 million. Data for fiscal 1981 are not yet available. Ministry of Finance officials ascribed this dip, the first in three years, partly to the continued depreciation of the yen, which boosted the cost of investing overseas by an equivalent margin. The completion of several large projects in developing countries also contributed to the decrease, as did a more cautious attitude toward investment in these countries in the wake of the Mitsui

group's experience with its Iranian petrochemical plant. Still, FY 1980's outflow brought the cumulative value of Japan's foreign direct investment to \$36.5 billion at the end of March 1981, or nearly double the level reached four years earlier.

Pulled by their political stability and pushed by the need for onshore production facilities to counter rising protectionism, other industrial countries remained the main destination of Japanese companies' foreign direct investments. Increasing at twice the year-earlier rate, the flow of funds into North America (largely the United States) expanded 11 percent to \$1,596 million. This gain raised the cumulative value of Japanese investment in the United States and Canada to \$9.8 billion, or 26.9 percent of the total. Investments in Europe rose as well, advancing 16.8 percent to \$578 million, which brought the total up to nearly \$4.5 billion. In contrast, the outflow of Japanese direct investment funds to Australia and New Zealand fell 23 percent to \$448 million after more than doubling in FY 1979. At the end of March 1981, though, over \$2.5 billion had been invested in these two countries.

Although Japanese companies scaled back their direct investments in developing countries as a group during the past fiscal year, the outflow of funds to Asian countries did expand in total, mainly because a large amount of money was channeled into the Asahan aluminum development project in Indonesia. Rebounding from a significant drop in FY 1979, investments in this region expanded 21.5 percent to \$1,186 million. In the process, Asia maintained its position as the number-one overseas investment area for Japanese companies on a cumulative basis, but with a total investment of slightly over \$9.8 billion, this region had only a tiny edge on North America.

Despite the region's political instability, firms in Japan also increased their direct investments in the Middle East during FY 1980, raising them 20 percent to \$156 million. On the other side of the ledger, though, the flow of direct investment funds into African countries declined 15.8 percent to \$141 million. More importantly, Japanese investments in Latin America, which had nearly doubled during the April 1979-March 1980 period, contracted 51.3 percent to \$588 million, largely because of the completion of a steel mill facility in Brazil and an oil-development project in Mexico. Nevertheless, as of March 1981, Japanese companies had funneled almost \$6.2 billion into this area.

Japanese companies continued to earmark the largest share of their foreign direct investment funds for manufacturing activities during the April 1980-March 1981 period. At \$1,707 million, though, investments in over-

seas production facilities were just 0.8 percent above FY 1979's depressed level. Moreover, investments in the overseas sales affiliates of Japanese firms dipped 4.4 percent to \$797 million, while the flow of funds into foreign mining projects tumbled 34.1 percent in FY 1980 to \$565 million after soaring in the year-earlier period. Despite this drop, cumulative mining investments stood at \$7.1 billion at the end of March 1981, significantly behind the \$12.6-billion total for manufacturing investments but well ahead of the \$5.4 billion invested up to that time by Japanese companies in commercial activities abroad.

Plant Exports Statistics on plant exports compiled by MITI show that totals for FY 1980 recorded \$8,930 million, down 25 percent over the previous year, reflecting the drop in plant exports to the Middle East and the communist countries of 50 to 70 percent. However, FY 1981 data show an increase of 38.2 percent to a record \$12.3 billion. From the middle of calendar 1981 these exports were expanding very rapidly.

Plant exports are defined by the MOF as certified exports of heavy machinery and equipment valued at more than \$500,000 per case, excluding machinery and independent equipment. These can be related to Japanese foreign direct investment, but not necessarily since there have been many projects in recent years undertaken for private or government firms without Japanese equity investment in developing countries. Japan has seen plant exports as a means of contributing to world stability and development as well as a means of redirecting Japanese exports away from the industrial countries, where trade friction was rising. Thus, the MOF created this special category of exports and continued to monitor it closely in 1981.

Problems with China

The Chinese government in early 1981 announced the cancellation or suspension of five large-scale plant construction projects, four of which were sponsored by Japanese firms and one by a West German company. The five projects included the second stage of the Baoshan steel plant and its affiliated hot- and cold-rolling steel mills, two petrochemical plants and one chemical factory. While the Japanese had been aware since summer 1980 that China's policy of reassessing its economic plans might slow the plant export projects, they tended to depend on China's pledge that it was merely postponing construction and in time would push ahead.

Apparently, the criticism over these foreign-assisted projects was based on a reassessment of the situation and internal demands to reduce spending and shift priorities from heavy to light industry and to agricultural development. Then, too, China was selling Japan its

crude oil in return for the loans, and some misjudgment over production capacity as well as an accumulated budget deficit seriously affected Peking's plans.

By early April, the Mitsubishi group heading the Baoshan hot strip mill construction had decided to terminate its pending contracts with China. In reaction, China revised its position and instead of cancelling the projects requested Japanese government loans to complete them. Chinese and Japanese officials met in Tokyo from April 9 to 12 to review China's request.

On July 6, Foreign Minister Sunao Sonoda met the Chinese ambassador to Japan to convey the Japanese government's decision to provide financial assistance to complete two of the cancelled projects—the Baoshan Steel Mill and the Daqing petrochemical plant. Negotiations regarding specific terms were held in the summer and fall.

Relations with the Middle East

Japan's relations with Iran and Iraq continued to be uncertain as the war dragged on. In regard to Iran, tension continued over the fate of the Bandar Khomeini petrochemical plant whose construction was halted after bombing damage in 1980. The project was originally a joint venture between a group of firms headed by Mitsui Trading Company and the Iranian government, but the Mitsui group asked the Japanese government to commit some financial resources in October 1979. However, when the Iran-Iraq war erupted in September 1980, the Japanese government refused all Overseas Economic Cooperation Fund financing, forcing Mitsui to cover all costs. On April 23, after frustrating months of negotiations, the Mitsui group announced that it would no longer finance the project. The Japanese government was apparently notified of the decision and accepted the Mitsui group's position. MITI officials noted that they did not think the decision signaled a total withdrawal, but rather a lever to force Iran to pay for the escalating costs caused by the war.

In the late fall, the problem-ridden Bandar Khomeini petrochemical project was facing further financial difficulties. A consortium of five companies within the Iran Chemical Development Company (ICDC) formally requested that Japanese banks defer for one year the ¥125 billion (\$576 million) in principal and interest due February 1982 on its outstanding loans. About 70 percent of the loans were held by the Japanese Export-Import Bank, a government financial corporation, and the rest were shared by 20 commercial banks. The Export-Import Bank was reluctant to absorb such huge losses and urged the companies to renegotiate with the Iranians and break the stalemate. The financial position of

this project remained uncertain at the end of the year.

Japan's relations with Iraq were also strained because the war with Iran had caused it to stop shipping crude oil to Japan. Before the war, Iraq had exported 370,000 barrels per day to Japan, of which 200,000 barrels or 4 percent were via direct deal.

In relations elsewhere in the Middle East, the government of Japan decided to invest in a petrochemical project in Saudi Arabia, under the leadership of the Mitsubishi group. The total cost of the project was expected to be \$1.5 billion, 30 percent of which was to be shared equally by Japan and Saudi Arabia. Of Japan's share, 45 percent was to be provided by the Overseas Economic Cooperation Fund. Originally, the Mitsubishi group planned to undertake the investment at Al Jubail, Saudi Arabia, but was reluctant to assume the risk for the huge petrochemical complex. MITI, however, favored a policy of expanding economic relations with Japan's oil-supplying trading partners and actively facilitated this venture. Japan imports about 30 percent of its total oil supplies from Saudi Arabia.

With the signing of the joint venture contract on May 23, the Eastern Petrochemical Co. was established in Saudi Arabia with construction operations scheduled to begin in October 1981. The Japanese side was providing the petrochemical technology and was to train Saudi Arabian engineers in Japan. In exchange, Japan would receive a preferential oil import quota from Saudi Arabia beginning in 1982, which was expected to contribute to stable oil supplies in Japan.

In October, Japan took another step in Middle East policy when PLO chairman Yasir Arafat visited Japan. This marked his first semi-official visit to a major industrialized country; a fact that had more political significance than the substance of the talks. As for Japan, this was its first opportunity to address the peace issue directly with the PLO. Both Prime Minister Suzuki and Foreign Minister Sonoda made it clear to Mr. Arafat that Japan wanted two goals realized: the recognition of Israel as a state, and a solution of the issue without resort to military means. Mr. Arafat did not respond to Japan's request to recognize Israel, but stated that Saudi Arabia's package proposal was constructive. Both sides were still far apart at the end of the talks, but the fact that a channel of communication had been established was considered a positive factor.

What the Japanese government achieved from the visit was unclear, and the government was careful to point out that there had been no change in its position. When the Foreign Minister was asked at a Diet hearing if the government was ready to give diplomatic

status to the PLO, his answer was "no." Originally, the Japanese government intended to coordinate Mr. Arafat's visit with one from President Sadat. Unfortunately, the carefully planned diplomatic game was upset, raising concerns that the Arafat trip might create an unbalanced impression of Japan's policy. In any case, a major result of the visit was a new interest in the Middle East and in the Palestinian issue by the public. Even though the combination of oil crises and political events in the region had impressed the public with the direct impact of international events on their daily lives, the Middle East still tended to be an abstract image for many Japanese.

Soviet Relations

Although Japan was bound by its pledge to the United States to maintain economic sanctions against the Soviet Union over that country's incursion into Afghanistan, it moved to contain the damage to the already-strained bilateral relationship.

The Ministry of Foreign Affairs announced that official trade agreement talks began on April 8 in Tokyo. The trade agreement, which was signed in 1956 when diplomatic relations were resumed is routinely extended every five years. The last extension expired late in 1980. However, because of the economic sanctions imposed against the Soviet Union, the talks on the bilateral trade agreement had been suspended. The new agreement was expected to cover various trade proposals, the Siberian development projects, methods of repayment, a schedule of official trade meetings and procedures for settling disputes. Without an agreement, Japanese trade with the Soviet Union would be severely damaged, especially since the economic sanctions involve limiting the supply of credit from the Japan Export-Import Bank.

The major specific trade and development items discussed with the Soviet Union involved natural gas. Early in the year, Japanese and Russian officials reached an agreement on the joint development of the Soviet Union's Sakhalin natural gas. The liquefied natural gas (LNG) produced by the venture was expected to last 20 years, at an annual transfer rate of 3 million tons. Construction of the LNG plant would cost ¥100 billion (\$453 million at average 1981 exchange rates) and additional costs for pipelines, transport ships and port facilities are expected to bring the total to almost ¥1 trillion.

In addition, Japan had earlier signed a tripartite agreement on a natural gas project with the Soviet Union and the United States in Yakutsk in East Siberia. This agreement provided for joint exploration for gas, with Japan and the United States each providing \$25 million. The Soviet Union would then provide

7.5 million tons of LNG over 25 years. However, the future of this project remained up in the air during 1981 as a result of the Soviet invasion of Afghanistan.

Negotiations were also underway between Russian officials and the Japan Export-Import Bank concerning export financing for a natural gas pipeline between Yamburg in Western Siberia and Western Europe. The project was opposed by the United States, which feared the strategic effects of Europe's becoming dependent on energy supplied by the Soviet Union. Negotiation on bank loans for the project met with further delay when the Japanese government imposed economic sanctions on the Soviet Union in the wake of Russia's military action in Afghanistan. Faced with competing credit offers from European countries, however, the Japanese government softened its stand. In September, the Export-Import Bank of Japan and the Soviet Union reached an agreement in Tokyo covering the Eximbank's loans for the pipeline. The loan conditions called for about \$600 million in credits at an annual interest rate of 7.8 percent and a repayment period of eight years.

The status of nontrade issues was brought up during a September 23 meeting between Foreign Minister Sunao Sonoda and Soviet Foreign Minister Andrei Gromyko at the United Nations. While there was no change in their positions on the Northern Territories issue, they nonetheless agreed to reopen official channels of communication. They further agreed to hold regular foreign ministerial-level meetings in the near future and stressed the importance of continued communication between the two governments.

The Russian foreign minister reportedly rebuffed Mr. Sonoda's attempts to reopen negotiations on the Northern Territories issue, stating that Japan was pressing the issue with the encouragement of the United States and China. Mr. Gromyko insisted that Japan should not harbor any illusions about the reversion of the territories since the Soviet Union's position was firm. Pointing out that the problem was purely a bilateral one, Mr. Sonoda urged that the Soviet Union honor its commitment to resolve the issue as designated in 1973 Brezhnev-Tanaka statement.

The sharp division between Japan and the Soviet Union was spelled out in the Japanese foreign minister's address to the General Assembly of the United Nations. He reiterated Japan's claims to the northern islands and warned that the Soviet Union's action in Afghanistan was a direct challenge to international justice. Pointing out that a nation's autonomy and sovereign rights were overthrown by foreign military intervention, he called for an immediate withdrawal of Russian troops. Mr. Sonoda also emphasized

that industrial and developing countries should abandon their confrontational approach and move toward an interdependence and alliance that will enhance the global economy.

In sum, Japan continued to back the United States in its policy toward the Soviet Union in 1981, although it tried to keep the lines of communication open. The Japanese were also resentful of losing Soviet business to the Europeans.

Rising Trade Problems with the EC

There were growing signs in 1981 that Japan's trade surplus with the EC was causing concern in Europe. On February 17, the EC Council (composed of ministers from each of the member countries) approved a proposal by the EC Commission to monitor the imports of Japanese-made automobiles, television sets (and tubes) and certain types of machine tools. At this point, the monitoring was only a statistics-gathering exercise and not an effort to restrain imports, but it was intended as another warning to the Japanese government to exercise voluntary restraint. The monitoring was supposed to provide the Commission with the relevant statistical information to aid in future decision-making.

In a related action, the Council recommended that trade problems with Japan be put on the agenda at the industrial nations' summit meeting to be held in Ottawa in late July. The Ministry of International Trade and Industry (MITI) responded with an announcement that it planned to advise the three problem industries to exercise voluntary restraint in their exports to prevent Japan from being criticized. However, at a preliminary working meeting concerning the agenda held in London on February 18, there was no mention of Japan.

Reinforcing the message, a group of 17 EC parliamentarians met with a delegation of Japanese Diet members in Tokyo at the same time that the EC Council was meeting in Brussels. The same arguments were brought up, including rigging the yen at too low a price and an unacceptably high trade imbalance. The Japanese side warned that any action on automobiles would have serious implications for import restrictions in the United States, making that issue a particularly delicate one.

While the EC as a whole confined itself at that stage to verbal warnings and threats, France actively moved against imports of Japanese-made automobiles. The Japanese were already restricted to only 3 percent of the French market, but angered by Japanese competition in other European countries, French officials were deliberately tying up Japanese cars on the docks in a tangle of red tape. Unlike many alleged nontariff barriers, this

move was the admitted product of Industry Minister Andre Giraud. The Japanese were upset over this development and government officials argued that it was a violation of GATT rules. There were fears that Belgium was following the same route since it was refusing to issue more import licenses for Japanese-made cars. Further restrictions on automobile imports from Japan did finally materialize in the wake of the auto export restraint agreement with the United States. Details of these agreements, which affected shipments to Germany and Belgium, are contained in the auto section of Part VI.

Relations between Japan and the European Community calmed down during the summer after Prime Minister Suzuki and MITI Minister Tanaka visited Europe in June to announce the government's intention to restrain exports of automobiles, electronics and numerically controlled machine tools. However, by late September there were again signs of European dissatisfaction. At the end of September, the EC Commission presented a 14-point demand to the Japanese government that specified trade commitments they would like Japan to support, including purchases of the European Airbus by Japan Air Lines, sales of European cars through Japanese auto dealers, preferential treatment on imports of European-made machinery, etc.

The British government also expressed its dissatisfaction with the huge deficit and presented a list of 20 questions to a Keidanren (Japan Federation of Economic Organizations) economic mission to Europe in October. The list espoused establishing a certain ratio of manufactured goods in Japan's import total, tariff reductions on foodstuffs and liquor, cuts in the markup of imported consumer goods, simplification of the Japanese distribution system, published reports on the quantity of imported goods used by government institutions, a review of patent approval procedures and standards and testing procedures in chemicals and medicines, plus further liberalization of capital inflow.

Yoshihiro Inayama, chairman of Keidanren and leader of the economic mission, stated in response that such criticism of Japan's market was based on a misunderstanding and that the Japanese market was in fact open. Noting that Japan had already restrained its exports of automobiles and television sets to the EC, he said that the trade imbalance was the result of individual consumer choices and varying inflation and foreign exchange rates. This did little to allay European criticism, and at the end of the year the Japanese continued to be apprehensive about EC criticism and threats of action.

Part V

The U.S. Economy

Economic Overview

The American economy was in a state of flux during 1981 as it adjusted to new Federal economic policies, con-

tinued high interest rates, and a renewed downturn in the economy that led to sharp declines in total output in the last two quarters of the year. The persistence of high interest rates, a result of tight monetary policy and inflationary expectations, was probably the most important general variable depressing the economy in 1981. Thus, the economic downturn centered around interest-sensitive industries such as housing and motor vehicles, and those industries closely associated with them such as forest products and steel.

GNP Growth

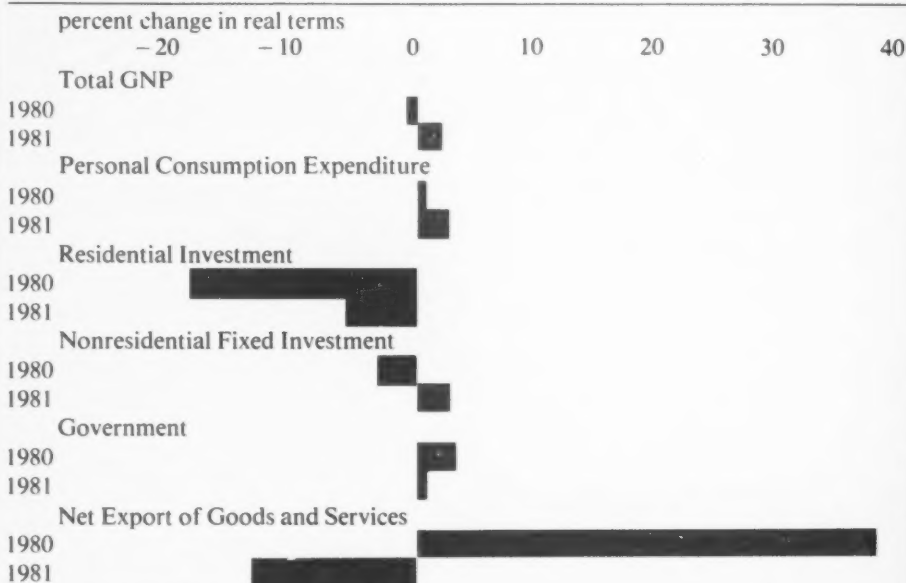
Available data show that real GNP in the United States rose 2 percent for all of 1981. The year started extremely well with economic growth at an annual rate of 8.6 percent for the first quarter. It then fell rapidly, registering a 1.6 percent negative growth rate in the second quarter. After a small rebound in the third quarter up to a positive growth rate of 1.4 percent, it reverted to a 4.5 percent negative growth rate in the fourth quarter.

Growth by Sector Sectoral activity in 1981 varied but showed fewer large declines than in 1980. Personal consumption showed an inflation-adjusted 2.5-percent increase for the year, with even growth in durable and non-durable goods, and services. Investment in residential housing fell by 6 percent compared to a 18.4-percent decline in 1980 while nonresidential housing investment rose by 2.5 percent after also declining in 1980. Government spending was up 0.6 percent for the year with federal spending increasing 3.1 percent (mostly in defense), and local and state spending declining by 0.9 percent. Net ex-

ports of goods and services fell steadily throughout 1981 registering a 13.7 percent decline, the result of a 0.4 percent decline in exports coupled with a 5.9 percent increase in imports.

Comparison to Japan Although Japan continued to grow at a real rate that was above the United States, the difference between the two countries diminished. The 2.0 percent U.S. GNP growth rate was only 0.9 percentage points below Japan. Not only were both countries closer together for the year as a whole, but both recorded significant declines in real GNP in the fourth quarter.

U.S. GNP by Sector



Source: Department of Commerce

In some ways, the sectoral pattern of growth was also similar between the two countries. Both countries experienced a drop in residential housing investment, and that decline

was smaller than in 1980 for both countries. Government expenditure in both countries was also somewhat similar as austere fiscal policies curtailed government spending, although the rate of growth in this item remained higher in Japan.

The major difference between the two countries was in the area of net exports of goods and services, which grew strongly for the year in Japan while registering a decline in the United States. Japan shows a real growth of 54 percent for the year while the United States had a decline of 13.7 percent. However, even here Japan reversed direction in

the fourth quarter with its large drop in net exports at a real annualized rate of 57 percent. Another difference between the two countries was in the area of nonresidential fixed invest-

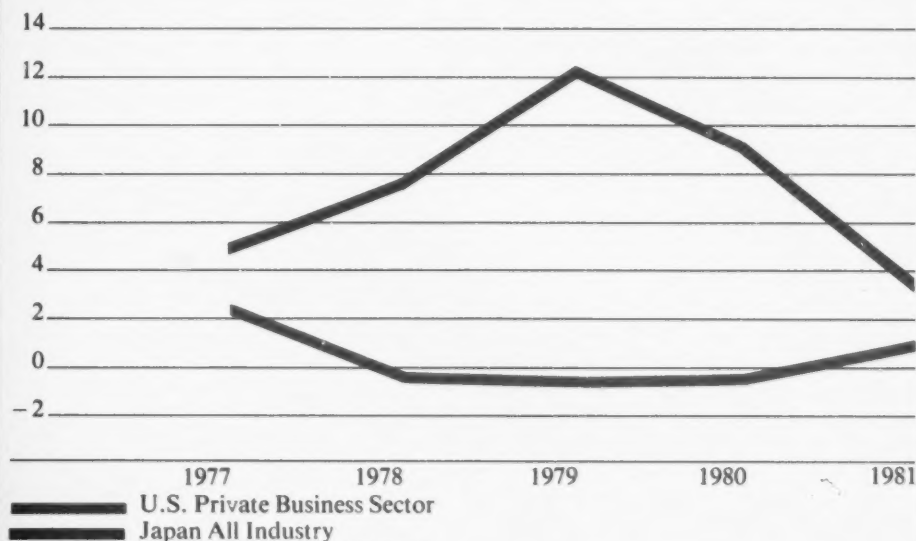
ment, where Japan managed an increase, even though it was much lower than in the preceding two years, while the United States showed a decline.

Other Economic Developments

Unemployment levels remained high throughout the year, averaging 7.6 percent. As the economic downturn deepened at the end of the year, unemployment unsurprisingly rose to its highest levels, reaching 8.3 percent in November and 8.8 percent in December. Long-term unemployment (15 weeks and over) was up 22 percent over its 1980 level. Unemployment rates struck some groups harder than others, registering its highest levels for teenagers (19.6 percent), minorities (14.2 percent) and female heads of households (10.4 percent). The number of employed workers rose slightly through July and then fell again so that employment grew by 2.2 million, comparing January figures to December figures. The average employment level for 1981 over 1980, however, rose to 93 million, while the overall civilian labor force increased by 1.1 percent.

Productivity Performance

percent change



Source: Department of Labor, Japan Productivity Center

The Labor Department estimated that productivity in the U.S. private sector during 1981 rose 1 percent after three straight years of decline. The productivity story by quarter, however, revealed that while it rose 4.7 percent and 3.5 percent in the first and second quarters, it returned to negative growth rates of 1.1 percent and 7.2 percent in the last two quarters of the year. This is one area where Japan continued to outpace the United States by turning in a productivity growth exceeding 6 percent. Average wages also fell in the

United States, with average hourly earnings falling 3.8 percent, when adjusted by the consumer price index.

One positive trend in 1981 was declining inflation, encouraged by tight monetary policy and steadier energy costs. The Consumer Price Index (CPI) for all workers showed an increase of only 10.4 percent, compared to a 13.5 percent hike in 1980. Increases in energy prices showed the biggest improvement, up 13.5 percent, as opposed to increases of 25.2 percent and 30.9 percent in 1979 and 1980. The difference between increases in food prices in 1980 and 1981 was much less, being 8.6 percent and 7.9 percent respectively.

Industrial output in 1981 rose initially through July, up 1.7 percent from January. It then fell rapidly, down 7 percent between July and December. Because of the strong performance in the first six months, industrial output for the year grew by 2.7 percent, but December figures registered a 2.5 percent decline from the same month in 1980. Interest-sensitive products recorded steeper declines than indicated by the average fall for the last six months of the year. Consumer durables in-

Federal Reserve Board to reduce monetary growth. No decline was seen until November, when the falling rates affected the yen-dollar exchange (as explained in Part III). The prime rate charged by commercial banks peaked in early January at 21 1/2 percent, declined to 17 1/2 percent in April before rising to 20 1/2 percent, where it remained from late May until early September. By year-end, the prime rate had declined to 15 3/4 percent. Other major interest rates followed this trend. Three-month Treasury bills began the year at 14.7 percent, rose to 16.3 percent in May, then fell to end the year at 10.9 percent, while six-month Treasury bills started at 13.9 percent, reached a high of 15.5 percent and ended at 11.5 percent. Top quality corporate bonds followed a somewhat different path hitting their low of 12.8 percent in January, peaking in September at 15.5 percent and then falling to 14.2 percent in December.

U.S. monetary policy in 1981 resulted in these high interest rates, as the Federal Reserve tried to bring down inflation. While it succeeded in lowering the annual consumer price inflation rate to 10.4 percent from the 1980 level of 13.5 percent, it also had some negative economic impact. The effect of high interest rates was to reduce output and employment, resulting in the renewed downturn in the economy. While these effects can be viewed as the transition costs of reducing inflation, there was also some fear at yearend that they might become long-term obstacles to U.S. economic recovery.

The administration was in agreement with the Federal Reserve on the basic stance of monetary policy during the year since it saw monetary policy as the most immediate way of affecting inflation. Other aspects of the Reagan economic policy were viewed as long term changes that would not show up as much in 1981. The result was a considerable slowdown in the growth of money supply while interest rates remained higher than expected, prompting some criticism of capital markets for lack of faith in the Reagan economic policy.

Japanese Criticisms Japanese officials felt that high U.S. interest rates were also having several detrimental effects on the Japanese economy. The criticism peaked in the summer during Prime Minister Suzuki's trip to Europe and later at the Ottawa summit meeting in July as he tried to enlist European support for Japan's position that the United States must lower its interest rates.

The criticism centered first around the fact that even though the official Bank of Japan discount rate was lowered in March, long-term, market-determined interest rates did not fall because of the high rates in the United States. Further reduction of interest rates, it was feared, would only cause a larger

cluding such items as automobiles and home appliances fell 16.7 percent. Within this category, automobile production fell 36.1 percent. Lumber and lumber products used by the interest-sensitive housing industry fell 17.7 percent in the last half of the year while iron and steel production fell by 25 percent.

Monetary Policy

High Interest Rates Interest rates remained high in 1981 despite attempts by the

outflow of capital to the United States and Eurodollar markets. The Ministry of Finance had planned on lower interest rates to help stimulate the Japanese economy, (discussed in Part IV), and the failure of interest rates to fall hindered that policy. A further concern arose over the planned issuance of government bonds.

The Japanese and Europeans remained unsuccessful in their attempt to get the United States to alter its monetary policy, although the situation was eased somewhat by the slight decline in U.S. interest rates that set in late in the summer. By December, the Japanese government felt able to lower the official discount rate again, but unhappiness over the continued relatively high level of U.S. rates was by no means ended. Japanese government officials continued to blame the United States for what was considered by many to be an excessively low value for the yen, as U.S. interest rates continued to attract capital out of Japan. Since the yen-dollar exchange rate is a major determinant of the bilateral trade balance, the Japanese government used this argument to offset American criticism of the rising size of the imbalance.

Fiscal Policy

The Budget Cutting Spree The Reagan administration, for both philosophical and economic reasons, pushed hard in 1981 to reduce the size of the Federal budget relative to GNP. Philosophically, it was felt that a reduction in the Federal budget would signal a shift in the role of the Federal government in the economy and result in the reallocation of certain responsibilities to state and local governments. Economically, it was hoped that lower Federal spending would redirect resources back to the private sector to increase private investment and speed economic recovery.

The two most important steps taken in 1981 to accomplish the budget cutting goal were the enactment of the Economic Recovery Tax Act to reduce income taxes over a three-year period and the Omnibus Budget Reconciliation Act to restrain government spending.

While the effects of these programs were still unclear at the end of 1981, government spending adjusted for inflation was up only 0.6 percent compared to 2.9 percent in 1980. Federal spending increases were cut in half from 6.3 percent in 1980 to 3.1 percent in 1981, while state and local spending fell. The Federal budget deficit, however, expanded to \$62.3 billion and the economy continued its downturn, leading to criticism of the Reagan administration's fiscal policy.

Comparison to Japan Japan also became worried about growing government spending in 1981 and instituted the first year of a fiscal

reconstruction program to limit spending. The increase in general expenditures was the lowest since 1956, up 4.3 percent, and the growth rate of the budget after adding in government bonds and local revenue-sharing was 9.9 percent, the lowest since 1959. Thus, Japan and the United States shared some similarities in the philosophical approach to fiscal policy, although the Reagan administration experienced an increase in the federal deficit despite its philosophy.

In another way, however, the administration's desire to curtail the federal presence in the economy caused considerable problems for Japan. Both the tax cut and the budget cut were being considered by Congress in the spring and early summer of 1981, and both involved considerable effort by the administration to line up support to ensure passage. Because of the overriding importance of these two pieces of legislation to the Reagan administration's economic policy, it was unwilling to antagonize Congress on other issues while the bills were pending. This was the precise point in time when Congress was threatening legislation to restrict automobile imports from Japan. To at least some extent, the administration's willingness to compromise its free trade stance by suggesting to the Japanese that voluntary restrictions would be in order, and by refusing to lobby against the congressional initiative was colored by its dedication to passing its economic package. The details of the automobile problem are contained in Part VI.

Trade and Payments Data

the same way as in Japan, some comparisons between the two countries can be made. In preliminary figures on merchandise trade, the United States had a \$27.8 billion deficit in 1981, up \$2.5 billion from the \$25.3 billion deficit in 1980. This contrasted with Japan's 1981 trade surplus of \$20 billion, helping revive concern over the balance of payments issue in U.S. political circles. During the year, the merchandise trade deficit widened from \$4.7 billion in the first quarter to \$6.9 billion in the second quarter, and then again expanding from \$7.0 billion in the third quarter to \$9.2 billion in the final quarter of the year. The increasing deficit reflected both the sluggish economic conditions existing in U.S. export markets and the impact of the appreciation of the dollar in late 1980 and early 1981. More detail on merchandise trade is provided below in the section on census trade data, which is measured on an f.a.s. basis rather than f.o.b.

Balance of Payments Data

Merchandise Trade

Although U.S. balance of payments accounts are not organized in the

Services and Transfers The United States recorded a record surplus of \$41.2 billion on services trade in 1981, up nearly 14 percent from 1980's level of \$36.1 billion. Unlike Japan, which has consistently run a deficit in services trade, the United States has steadily increased the size of its surplus in this area. Broken down, the increase came primarily from a jump from \$15.2 billion in 1980 to \$27.4 billion in 1981 in net receipts from private portfolio investment abroad. This more than offset a decline in receipts from U.S. direct investment abroad, which fell from \$27.5 billion in 1980 to \$22.5 billion in 1981, reflecting the continuation of a decline begun in 1980 because of recession in many countries and lowered earnings of petroleum companies.

In addition, other service categories showed small surpluses. These included record receipts of \$59.4 billion (up from \$39.1 billion in 1980) on other private and government investment because of high interest rates and U.S. banking strength, and increases in transportation receipts.

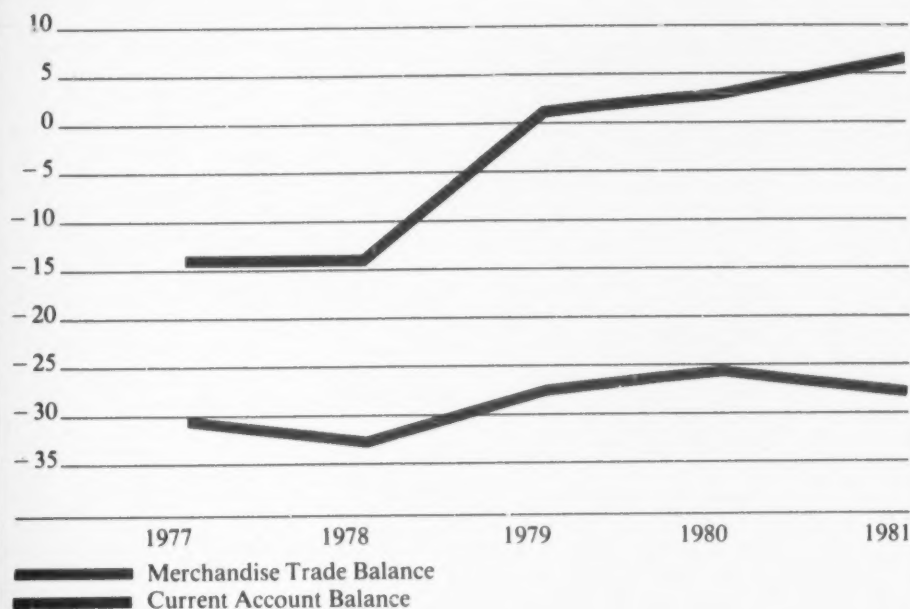
The U.S. deficit on unilateral transfers (foreign aid other than military grants) fell from \$7.1 billion to \$6.8 billion, attributable mainly to a 30-percent drop in private remittances.

Current Account Merchandise trade, services and unilateral transfers added up to a current-account surplus of just over \$6.6 billion in 1981. This was the second annual surplus in a row, following a \$3.7 billion surplus in 1980. The surplus was also higher than Japan's 1981 current-account surplus of \$4.7 billion. The U.S. current account recorded its highest 1981 quarterly surplus in the first quarter, adding up to \$3.3 billion. It then dropped to \$1.2 billion in the second quarter before regaining some ground to end at \$2.1 billion in the third quarter. The fourth quarter registered the only deficit of the year, \$85 million, largely due to the growing merchandise trade deficit.

Capital Flows and Overall Balance These items are not organized into easily understood categories in the U.S. balance of payments data that are comparable to Japan's accounting system. There are, however, a few comparable items. Direct investment amounted to a net inflow in 1981 of \$11.7 billion, compared to a net outflow of \$7.6 billion in 1980. This compares to outflows in Japan of \$2.1 billion in 1980 and \$4.7 billion in 1981. U.S. balance of payments statistics do not separate other capital transactions into long-term assets, short-term assets and currency holdings. Taken together, these items resulted in a net capital and currency outflow of \$34.5 billion in 1980 and \$32.2 billion in 1981. These were partially offset by statistical discrepancies of \$29.6 billion and \$24.6 billion, respectively.

U.S. Balance of Payments

billions of dollars



Source: Department of Commerce

Census Trade Data

After narrowing in 1979 and again in 1980, the overall U.S. merchandise trade deficit (measured on an f.a.s. basis as opposed to the f.o.b. basis in the balance of payments data) expanded in 1981, increasing by \$3.4 billion to a near-record \$27.6 billion. Unlike 1978, though, when the deficit hit a record high \$28.4 billion, the renewed deterioration in the U.S. trade position occurred against a backdrop of sluggish economic growth both domestically and overseas and the continued appreciation of the dollar, as detailed in Part III.

Exports edged up only 5.9 percent in 1981 to \$233.7 billion, the smallest gain since 1977 and a marked contrast to the 20-percent-plus increases of the two previous years. Ironically, export growth was curbed not only by the poor performance of foreign economies and the 20-percent rise in the dollar's value but also by the moderation in the U.S. inflation rate, since export prices rose by 9.1 percent versus 1980's 13.6-percent hike. In addition, the volume of exports fell.

The growth of U.S. imports abated as well in 1981, as purchases expanded just 6.7 percent to \$261.3 billion—the slowest rate of increase in six years and a sharp deceleration from 1979's and 1980's near 20-percent pace. An appreciation-induced slowdown in the rise of import prices from 1980's 25.4-percent rate to 6 percent in 1981 curtailed the advance of purchases from abroad. Moreover, the volume of imports was also off in 1981 for the

second consecutive year, mainly because of a cutback in oil imports.

Trade by Country The \$3.4-billion jump in the overall trade deficit in 1981 was the net outcome of another reversal in the favorable U.S. trade balance with other industrialized nations and a significant drop in the recurring trade deficit with developing countries. The U.S. trade account vis-a-vis developed countries plunged back into deficit as 1980's \$5.5-billion surplus was replaced by a \$5.7-billion deficit. American exports to these countries slowed from their strong 1980 pace, rising just 3.8 percent to \$135.8 billion, but imports from them continued to advance at the year-earlier rate, expanding 12.9 percent to \$141.5 billion. Compounding this shift, the U.S. trade surplus with non-market economies slipped by \$600 million to \$4.5 billion, as exports edged up just 4.4 percent to \$8 billion and imported goods climbed 38.2 percent to \$3.5 billion. In contrast, the trade deficit with developing countries, which had risen steeply in 1979 and again in 1980 to \$35.9 billion, contracted in 1981 to \$27.4 billion. This reduction reflected a 9.7-percent boost in U.S. exports to \$89 billion combined with a 0.6-percent dip in American purchases to \$116.3 billion.

Once again, another jump in the bilateral trade deficit with Japan was a major component of the deterioration in the overall U.S. trade account. After hitting a then-record \$11.6 billion in 1978, the U.S.-Japan trade deficit first narrowed and then climbed to

\$9.9 billion in 1980 and \$15.8 billion in 1981. This was the largest red-ink entry ever recorded with a single trading partner and resulted from a significant slowdown in export growth to only 5 percent, which held American sales to \$21.8 billion, and a pickup in the expansion of imports to 22.5 percent, boosting U.S. purchases to \$37.6 billion.

The bilateral trade deficit with Canada also widened in 1981 but by a modest \$800 million to \$6.9 billion. Exports as well as imports picked up some steam, with U.S. sales advancing 11.8 percent to \$39.6 billion and American purchases increasing 12 percent to \$46.4 billion. More importantly, the traditional U.S. surplus in trade with the European Community fell in 1981. From 1980's \$17.6-billion entry, the favorable balance tumbled to \$10.7 billion under the combined impact of a 2.5-percent dip in exports to \$52.4 billion and a 15.3-percent increase in imports to \$41.6 billion.

Not surprisingly, the substantial reduction in the U.S. trade deficit with developing countries in 1981 reflected a cut in the huge red-ink entry for OPEC members. After soaring to \$37.6 billion in 1980, the U.S. trade deficit with these oil suppliers dropped to \$27.9 billion in 1981, sliced by a 10.6-percent reduction in imports to \$9.4 billion on top of a 21.3-percent jump in exports to \$21.5 billion. Interestingly, the negative balance with Saudi Arabia, this country's largest oil supplier, deepened, moving from \$6.9 billion to \$7.1 billion. So did the deficit with Indonesia, which went from \$3.7 billion to \$4.7 billion. Still, the United States trimmed the imbalance in trade with its number-two oil supplier, Nigeria, as well as with Venezuela, Libya and Algeria.

The United States remained in the black in its trade with non-OPEC developing countries, but the surplus narrowed to \$500 million from 1980's \$1.7-billion level as U.S. imports rose 8.4 percent to \$66.9 billion while exports edged up 6.4 percent to \$67.4 billion. However, the favorable balance with Mexico, the third-largest trading partner for the United States, expanded from \$2.5 billion to \$4 billion, widened by a 17.5-percent advance in U.S. exports to \$17.8 billion and a 9.2-percent gain in purchases to \$13.8 billion. On the other side of the ledger, though, the United States posted larger deficits in trade with Taiwan (up \$1.2 billion to \$3.8 billion) and Hong Kong (up \$0.7 billion to \$2.8 billion) and went into the red in its trade with Korea (by \$0.1 billion) and Brazil (by \$0.7 billion).

Exports by Product The marked slowdown in the growth of American overseas sales in 1981 was evident in four of the five major export categories, but it was most noticeable in the capital goods category, the

largest component of U.S. exports. Following two years of gains on the order of 25 percent, sales of capital goods expanded just 10.4 percent in 1981 to \$80.2 billion. Moderate or modest increases were the rule of both high-technology products and other types of capital goods. For example, computers and peripheral equipment, building on a 1980 jump of nearly two-fifths, advanced by over one-sixth to \$8.8 billion, and measuring and testing equipment increased by almost the same margin to \$3.7 billion. Also chalking up increases in the moderate range were generators and transformers, agricultural equipment, machine tools and some additional kinds of specialized industrial machinery, while modest rises were posted by excavating and paving equipment (up by a 10 percent to \$3.3 billion), nonfarm tractors, nonelectric power-generating equipment and service-industry equipment. In fact, drilling and oil field equipment, which climbed by 30 percent to \$4.5 billion, was one of the few types of capital goods to keep up the brisk sales pace of earlier years. The high-flying gains previously posted by aircraft exports were certainly not maintained in 1981, as overseas deliveries of planes edged up just slightly to \$8.6 billion and sales of parts fell by a sixth to \$4.9 billion. Moreover, at \$5.7 billion, sales of broadcast and communications equipment marked time.

Exports of food and feed, which climbed by close to one-fifth in 1979 and by the same margin in 1980, rose by a scaled-back 7.3 percent in 1981, to \$37.9 billion. Wheat sales jumped by nearly one-fourth to \$7.8 billion on a similar shipment gain, but corn exports slipped slightly to \$8 billion, held back by a one-eighth-plus decline in the volume of sales. The export expansion was constrained as well by the small rise to \$6.2 billion in sales of soybeans, the result of flat shipments, and by a dip in overseas purchases of animal feeds. On a brighter note, sales of fruits and vegetables increased by more than an eighth to \$3.3 billion.

The surprise of 1981 was the 13.4-percent rebound to \$18 billion in exports of automotive products following 1980's dip. Most of this recovery reflected the continued growth of automotive parts, which expanded by over 20 percent to \$10.7 billion, boosted mainly by greater sales to the Canadian affiliates of American car makers. An increase of one-twelfth to \$3.3 billion in exports of trucks and buses also helped. Sales of cars were flat at \$3.9 billion, however, as higher prices just offset a drop in deliveries.

Hardest hit in 1981 by the sluggish economic performance of major trading partners and the dollar's substantial appreciation were exports of industrial supplies, which edged down 4 percent to \$67.7 billion after two

years of robust growth. Sales of nonferrous metals and nonferrous ores and scrap contracted sharply in the wake of skyrocketing gains the two previous years, while steel exports were off by a more modest margin. Sales of logs and lumber tumbled for the second year in a row and were joined in the minus column by paper base stocks and cotton. On that side of the ledger as well were fertilizers and insecticides, which declined by a tenth to \$3.9 billion, plus textiles (off marginally to \$3.6 billion) and plastics (down slightly to \$3.5 billion). Some intermediate goods were able to avoid the slide, however. Coal exports, for instance, reached record levels despite a prolonged miners' strike in the second quarter, jumping by almost three-tenths to \$5.8 billion on a shipment gain of nearly the same magnitude. An equally big increase was chalked up by petroleum and petroleum products as sales reached \$3.7 billion. In addition, exports of inorganic chemicals expanded by one-ninth to \$3.3 billion, and sales of organic chemicals moved up modestly to \$5.9 billion. Newsprint and paper products also showed some growth.

Consumer goods also reversed course in 1981, with exports slipping 2.3 percent to \$15.8 billion. Pharmaceuticals, the main product group in this category, turned in another moderate performance, expanding by a little over one-ninth to \$2.3 billion. So did printed material, but other leading consumer goods such as electric household appliances, clothing, toys and sporting goods could only manage very modest increases.

Imports by Product Like the slowdown in export growth, the deceleration in the rate of increase of U.S. purchases from abroad was visible almost across the board, but it was due in large part to the scaled-back expansion of industrial supplies, which account for half of American imports. After advancing by more than one-fourth in both 1979 and 1980, purchases of intermediate goods went up only 6 percent in 1981 to \$134.6 billion, reined in by a drop in oil imports. The volume of crude oil imported in 1981 fell to an average 6.1 million barrels a day from 1980's 7 million barrels-per-day mark and the 8.7 million barrels purchased daily in each of the previous two years, as the sluggish performance of the U.S. economy on top of continued conservation efforts further curtailed consumption. As a result of this cutback, the value of purchases declined 5.7 percent to \$61.9 billion even though the average \$34.31 paid per barrel was some 12 percent above 1980's price.

Reduced imports were also typical of several other industrial supplies in 1981, including nonferrous metals, which were off by about one-twelfth to \$7 billion, and lumber. Still, a number of intermediate goods, led by steel mill products, registered impressive im-

port gains. After fluctuating narrowly between 1978 and 1980, imports of steel mill products shot up by more than 50 percent to \$10.4 billion, propelled by higher prices as well as a jump of 30 percent in the quantity delivered to a near-record 19.9 million tons—a figure that translated into an all-time high 19.1-percent market share of imports. Purchases of textiles also rose strongly in 1981, expanding by more than 25 percent to \$3 billion, as did imports of organic chemicals and petroleum products (up by a sixth to \$13.7 billion). More modest increases were posted by a host of other industrial supplies, including natural gas, which rose by one-ninth to \$5.7 billion, newsprint and paper products (up by one-twelfth to \$3.7 billion), inorganic chemicals, nonferrous ores and scrap and paper base stocks.

Also helping to dampen the expansion of U.S. imports last year was a leveling off of purchases of food and feed at \$18.1 billion. Imports of fish, as well as fruits and vegetables, which had marked time in 1980, went up by fairly significant margins, while smaller increases were registered by alcoholic beverages and sugar. These gains were matched, however, by a big drop in purchases of coffee and a moderate decline in meat products.

The growth tempo of consumer goods imports slowed slightly in 1981, with purchases rising 12.5 percent to \$38.7 billion. One product group that exhibited continued vigor was clothing, as imports went up by more than a sixth to \$7.5 billion. Also ringing up additional big gains were video cassette recorders and television sets. Smaller but still substantial gains were chalked up by a number of other product groups, including toys and sporting goods, cookware and cutlery, photographic equipment, clocks and watches, glassware and tableware and motorcycles. In addition, imports of footwear, which had leveled off in 1980, rose modestly, reaching \$3 billion.

The pace of capital goods imports ebbed somewhat as well, although purchases still advanced by a healthy 16.5 percent to \$34.5 billion. Most of this slowdown reflected a sharp deceleration in the expansion of electric machinery after two years of big increases. The growth of machine tools slackened, too, but imports of copiers, calculators and other business machines, which had expanded by moderate margins in both 1979 and 1980, picked up a considerable amount of steam in 1981, soaring by two-thirds to \$4.7 billion. Specialized industrial machinery also gained speed in 1981, with purchases increasing by a fifth to \$3.4 billion, while imports of aircraft and aircraft parts posted another strong gain, this one of 25 percent to \$3.8 billion.

Automotive products were the only import category to show a higher rate of growth

in 1981, as 1979's 5.1-percent gain and 1980's 5.9-percent expansion were replaced by a 9.9-percent increase—a rise that boosted the import value to \$29.7 billion. Pacing this upturn were trucks and buses, which climbed by almost one-fifth to \$4.8 billion after advancing by one-twelfth in 1980 and registering no growth the previous year. In addition, purchases of automotive parts bounced back from 1980's drop of one-ninth and climbed by nearly one-sixth to \$7.1 billion. In contrast, imports of cars increased by a modest 5.6 percent to \$17.7 billion following a year-earlier rise of 13.3 percent. All of 1981's gain reflected higher sticker prices since deliveries fell by 9.3 percent to 2,856,285 units. Still, imported nameplates grabbed 27.3 percent of the depressed American car market, breaking 1980's record share of 26.7 percent. This happened despite the voluntary restraint on Japanese automobile exports to the United States that is discussed in Part VI.

International Economic Policy

Overall Trade and Investment Policy

The Reagan administration's overall trade policy framework began to take shape during the summer after the immediate and troublesome auto import problem was settled. It was outlined at a series of hearings beginning on July 8 held jointly by the Subcommittee on International Trade of the Senate Finance committee and the Subcommittee on International Finance of the Senate Banking committee to examine whether the United States had or needed a "comprehensive trade policy." Refuting criticism that the administration's trade policy amounted to nothing more than "survival of the fittest," U.S. Trade Representative William Brock asserted that the most important thing the U.S. government could do for American industry was to insure a vibrant domestic economy and an open and competitive market system. U.S. Trade Representative William Brock then proceeded to present a Reagan administration white paper outlining the terms of its emerging international trade policy. Although this statement of principles was rather vague, it apparently was intended to place the Reagan administration's heretofore inconsistent trade policy in a favorable light, one that, it was hoped, would permit the President to take a credible liberal-trade position vis-a-vis an increasingly protectionist Western Europe and Canada.

The paper itself was a clear, concise statement of American trade policy, listing five central components:

☐ Restoration of strong non-inflationary growth to facilitate adjustment to changing

domestic and international market conditions. This first component attempted to link U.S. trade policy with the adoption by the Congress of the President's domestic economic program.

☐ Reduction of self-imposed export disincentives and better management of government export promotion programs. Among the self-imposed export disincentives enumerated were trade-restrictive U.S. antitrust laws, the Foreign Corrupt Practices Act and the tax burden upon American businessmen posted abroad.

☐ Effective enforcement of U.S. trade laws and international agreements. According to Ambassador Brock, this meant that the United States would "strictly enforce" its antidumping, countervailing duty and related unfair-trade statutes, as well as the various nontariff barrier codes negotiated during the Tokyo Round trade talks. More specifically, the President's trade negotiator warned that the U.S. would not tolerate the "growing subsidization of export credits" by some of its trading partners.

☐ Effective approach to industrial adjustment problems. Adjustment assistance and safeguard measures were seen as easing problems of dislocation, but Brock emphasized that it would be the administration's policy to place primary reliance on market forces to facilitate adjustment.

☐ Reduction in government barriers to the flow of trade and investment among nations, with strong emphasis upon improvement and extension of international trade rules. This included liberalized trade in services, the reduction of trade-related investment (such as export performance and local content requirements), open trade in high-technology products, and expanded trade with the developing and nonmarket-economy nations.

DITI Proposal

On the congressional front, movement spearheaded by Senator Roth (R., Del.) was again made in 1981 to reorganize the government's trade functions into a single Department of International Trade and Investment (DITI) through his introduction of S. 970. Reacting to the bureaucratic rift over the auto import issue in early 1981, however, members of both Houses indicated strong support for the Office of the U.S. Trade Representative—an agency the DITI proposal would effectively eliminate. In addition, the administration indicated its strong commitment to the existing trade organization.

During the first of a series of hearings, former Senator Adlai Stevenson voiced strong support for S. 970, arguing that the existing institutional setup created an "unwieldy division between trade policy and negotiating and implementing responsibilities." Conversely,

representatives from Commerce, State and the office of the U.S. Trade Representative (USTR) maintained that it was premature to proceed with S. 970 because the administration had not had sufficient time to judge the adequacy of the 1979 trade reorganization plan. According to the 1979 Trade Agreements Act, trade policy and negotiating are the responsibility of USTR, while analysis and implementation of the trade statutes are conducted by the International Trade Administration (ITA) of the Commerce Department. Commerce Undersecretary Lionel Olmer and Deputy U.S. Trade Representative David R. Macdonald used the opportunity to underscore the ways in which their respective agencies had begun to "work the kinks out" of the 1979 reorganization plan. Citing the fact that the United States had only one-third to one-fourth as many Foreign Commercial Service (FCS) officers as France or the United Kingdom, Mr. Olmer stressed that Commerce was "making diligent efforts" to expand the FCS and train officers in more effective marketing techniques. Mr. Macdonald pointed out that USTR had acted recently to reduce disincentives to exporters, resolve the auto import problem, and negotiate international limits to export credit subsidies. He also highlighted the fact that the interagency Trade Policy Committee had met several times already in 1981, in contrast to the single time it met during the Carter administration.

The key elements of the DITI proposal still pending at the end of 1981 were:

☐ It would combine the Office of the U.S. Trade Representative with the international trade and investment functions of the Commerce Department.

☐ The Commerce Department's functions involving industry analysis, productivity and technological innovation would be incorporated into DITI.

☐ The Secretary of Trade and Investment would be a Cabinet-level official as well as chairman of the Interagency Trade Policy Committee (with representatives from the Departments of Commerce, State, Treasury, Labor and Agriculture).

☐ Overall responsibility for agricultural trade matters would remain with the Secretary of Agriculture. In cases involving international trade of agricultural commodities, however, the Secretaries of Agriculture and Trade would be required to consult closely.

☐ The Secretary of Trade would serve on the boards of the Export-Import Bank and the Overseas Private Investment Corporation, which, through their financing and insurance activities, also affect the level of U.S. international trade and investment.

USTR Reorganization

In early October, U.S. Trade Representative Brock made public a departmental reorganization to enable USTR to "deal more effectively with the realities of the post-MTN era, and meet the challenge of international trade in the 1980's." Most notable of these structural changes was the regrouping of Japan with the advanced industrialized European nations. Under previous administrations U.S.-Japan trade matters were handled by the assistant trade representative (AUSTR) with responsibility for the less-developed nations. The arrangement specified that trade with the less-developed nations was to be the responsibility of two separate divisions; one overseeing trade with the Americas, and the other handling trade with the Pacific, Asia and Africa, as well as general North-South relations. Ambassador Brock also abolished the energy division and incorporated it into industrial policy, and, with an eye toward the increasing foreign restrictions on U.S. capital flows, created a new desk to handle international investment policy. These changes were said to underscore the President's commitment to the successful implementation and monitoring of the Tokyo Round agreement codes, and the administration's program for improved trade relations in the Western Hemisphere.

Trade in Services

One aspect of the Reagan administration's plan to revitalize the economy was the expansion of services exports. U.S. Trade Representative Brock announced in April with the release of his office's "Work Program on Trade in Services," recognizing that by 1981 services accounted for about one-fourth of all U.S. trade making the United States the world's leading services exporter. Approved by the Cabinet-level Trade Policy Committee, this program addressed the twin problems facing potential exporters of services—foreign barriers and domestic policies that act as export disincentives. USTR's five-point program proposed:

- ☐ Full utilization of existing bilateral arrangements with other governments to resolve current trade problems.
- ☐ Inclusion of services in the review of U.S. policies that burden U.S. exports.
- ☐ Domestic and international preparations for future multilateral trade negotiations on services.
- ☐ Review of domestic legislative provisions relating to the achievement of reciprocity for U.S. services industries.
- ☐ Review of the adequacy of U.S. statistics on trade in services with the purpose of recommending possible improvements.

While acknowledging that a number of services were considered by other countries to

be critical to economic, social and national security goals—and have been regulated to "assure broad societal goals"—Ambassador Brock stressed that these goals could also be used as a "shield for protectionist ends," and that the purpose of the new trade policy was to minimize such abuses.

In November, U.S. Trade Representative Brock again stressed before the Senate Banking Subcommittee on International Finance that the Reagan administration intended to develop negotiating proposals and an overall approach for attacking foreign barriers in services trade. While acknowledging that the concept of reciprocity and the national treatment provision, both of which were addressed in the GATT, were important principles, he concluded that a careful analysis would have to be made of the individual service sectors to determine the applicability of these concepts.

Export Promotion

Export promotion was an issue in 1981 the discussion of which was almost entirely confined to the legislative branch. The executive branch downplayed the issue because it opposed on ideological grounds any additional federal government subsidy of export expanding measures which would entail government interference in the marketplace.

Export Caucus Congress, however, seemed to hold a different view as seen by the reestablishment at the beginning of the 97th Congress of the 71-member, largely bipartisan Senate Export Caucus. It appeared that strong momentum for export expansion legislation had carried over from the 96th Congress. Looking hard at the United States' \$26-billion trade deficit in 1980, co-chairmen Lloyd Bentsen (D, Tex.) and William Roth (R, Del.) maintained that they would strive to make the Export Caucus "an important vehicle for promoting a greater awareness of exports."

At a press conference announcing formulation of the caucus, members emphasized the need to eliminate various export disincentives and "even up the terms of trade in the world." Senator Bentsen stated that the caucus would revise and resubmit the Omnibus Trade Bill to stimulate discussion and put a greater focus on trade issues. Among the specific measures the caucus promoted were: (1) revisions to sections 911 and 913 of the tax code that would ease the tax burden on U.S. businessmen overseas; (2) passage of legislation authorizing the formation of U.S. export trading companies; and (3) amendments to the Foreign Corrupt Practices Act.

Export Trading Companies The most action during 1981 was taken on the second of the caucus measures—the export trading

company legislation. In the Senate, Senator John Heinz (R, Pa.) took the lead in introducing S. 144, which was nearly identical to S. 2718, the export trading company bill that passed resoundingly in the Senate in 1980 but became stalled in the House. While he acknowledged on the one hand that the bill "will not solve every one of our trading problems," Senator Heinz nevertheless was convinced that it would "put us on a par with our trade competitors who have long been better organized and better structured for global competition." In the House, Rep. John LaFalce (D, N.Y.) introduced his own export trading company bill (H.R. 1648), and Representatives Jonathan Bingham (D, N.Y.) and Don Bonker (D, Wash.) introduced H.R. 1799, the Heinz companion bill. Former Senator Adlai Stevenson, Jr. (D, Ill.), the driving force behind the legislation during the 96th Congress, as well as Comptroller of the Currency John G. Heimann and representatives from various banking associations, also urged expeditious action on S. 144.

The purpose of Senator Heinz's legislation was to promote U.S. exports by providing small-to medium-sized firms (which lack sufficient capital, marketing, international financial expertise and other export-related services) with a "one-stop facility" through which they could sell their goods abroad. The bill clarified the Webb-Pomerene Act's anti-trust exemptions to encourage the formation of export trading companies, and allowed bank equity participation in such ventures. In a repeat performance of 1980, Senator William Proxmire (D, Wis.), the bill's most strident opponent, charged that since the United States was *not* facing an export crisis, the legislation, by allowing bank ownership, only served to interject high risks into the banking system, and that the antitrust exemptions would legitimize cartels. The legislation, with several substantive amendments, none of which diluted significantly the key banking and antitrust provisions, passed the Senate Banking Committee and then in early April was resoundingly approved 93-0 by the full Senate.

However, the prognosis for passage by the House of Representatives remained unclear, as it had in 1980. The antitrust provisions of the Senate bill met resistance in the Judiciary Committee, where chairman Peter Rodino (D, N.J.) and ranking minority member Robert McClory (R, Ill.) favored their own bill. By the summer, the export trading company legislation had once again hit snags in the House in two of the three committees to which it had been referred for the reasons just cited—resistance over the antitrust provisions in the Judiciary Committee and over the banking provisions in the House Banking Committee. The House Foreign Affairs Committee

was the only one of the three committees in which early passage seemed possible. At the end of the first session of the 97th Congress, the legislation remained stymied in the House.

Export Financing The second major export promotion issue raised in 1981 was the appropriate role of the Federal government in export financing. Early in the year, this debate centered around the administration's proposed funding cuts for the Export-Import Bank and their effect on U.S. export ventures. In a series of hearings held in late spring by the House Banking Subcommittee on International Trade, subcommittee chairman Rep. Stephen Neal (D, N.C.) and other members seemed unsympathetic to protests (especially from the aerospace industry) that further cuts in export financing would severely undercut industry's ability to compete with foreign government-subsidized enterprises.

The Reagan administration had proposed cutting the Eximbank's loan program by \$750 million, to \$5.15 billion in FY 1981, 12 percent below the Carter administration's request. The President's budget plans also lowered the bank's loans to \$4.4 billion in FY 1982, with direct loans to foreign buyers of U.S. exports amounting to \$4 billion in the next fiscal year. Authorization of \$400 million was to be allocated for "discount loans" to private banks which finance American goods exported on fixed-interest terms. The estimated total savings over the next five years was expected to be about \$6 billion.

The administration's proposed cuts for Eximbank funding were included in the omnibus Budget Reconciliation Act in July, setting credit limits for the Bank. These limits were questioned in the Senate Banking Subcommittee on International Finance hearing on S. 868, the Competitive Export Financing Act of 1981. The subcommittee members had become increasingly concerned about foreign predatory export financing.

The Competitive Export Financing Act, introduced by subcommittee chairman John Heinz (R, Pa.) along with committee chairman Jake Garn (R, Utah), included the appropriation of a special \$1-billion contingency fund to be available for Eximbank's use in matching predatory export-credit offers of trade competitors if no international agreement barring unfair subsidies was reached within one year. While interest in this bill was defused by the OECD agreement on concessionary interest rates reached in November (see Part III), the debate over export financing, was still continuing at the end of the year.

Trade Adjustment Assistance

The trade adjustment assistance (TAA) program, long regarded as an indispensable con-

comitant to U.S. free trade policy, became a prime candidate in 1981 for sharp cutbacks and then discontinuance in the Reagan administration's new economic policy. In view of the prolonged and burgeoning unemployment in the auto and auto-related industries, however, these proposed cuts met stiff opposition on Capitol Hill—not only from organized labor, which in the past lobbied heavily against cutbacks in trade adjustment assistance, but also from the agencies that administered the program.

Capitol Hill consideration of the administration's proposal began with the introduction of a bill by Senator Strom Thurmond (R, S.C.) supporting cutbacks that included the revisions favored by OMB, but went one step further by requiring that imports be the "major cause" of injury to workers and firms. The bill also extended TAA benefits to firms and their employees who provide "essential goods and services" to import-impacted firms, and required that Labor and Commerce share their data and information on petitioners to expedite the application procedures.

Ultimately, the proposed cuts in trade adjustment assistance were included in the omnibus Budget Reconciliation Act rather than as a separate bill. Following reconciliation instructions, the House Ways and Means Committee approved by voice vote in May substantial cuts in the TAA program for workers and firms in import-impacted industries. The changes in the trade adjustment assistance program in the committee's bill were kept intact in final passage of the bill by both houses of Congress on July 31.

The program was reined in to the extent that benefits to displaced workers were expected to fall from \$1.5 billion under the previous program to an estimated \$350 million in FY 1982. Moreover, the revisions set much stiffer criteria for both workers and firms applying for financial or technical aid, and required that workers exhaust their regular unemployment insurance benefits before receiving TAA benefits, which would then be no greater than the worker's unemployment benefits and limited to a maximum of 52 weeks. The new program also emphasized job retraining over monetary compensation for displaced workers, and authorized the Secretary of Labor to require that workers receiving TAA benefits participate in some type of retraining program. In contrast to the \$8 to \$10 million allocated in FY 1981 for this purpose, the new budget earmarked some \$112 million of retraining. In general, the final version largely conformed with the administration's recommended revisions.

More specifically, the new program required workers and firms to prove that imports were a "substantial cause" of injury—no less important than any other factor. Under

the previous law, applicants, had to prove that imports "contributed significantly" to a worker or firm's dislocation. Despite the tougher eligibility standards, however, companies could still obtain up to \$3 million in loan guarantees and \$1 million in direct federal loans under the new program. Both job-search and relocation allowances were upped from \$500 to \$600 maximum per worker.

Even before final passage, however, administration and labor officials began to clash over the revisions. Testifying in early July before a joint hearing of the Senate Banking Subcommittee on International Finance and Senate Finance Subcommittee on International Trade, Murray Weidenbaum of the Council of Economic Advisers maintained that it was the administration's policy to place primary reliance on market forces to facilitate adjustments in affected industries. AFL-CIO president Lane Kirkland, in contrast, charged that the administration's plans to phase out the trade adjustment assistance program for workers and firms "amounts to another broken promise to those who pay the price of trade liberalization."

At another set of hearings held in December by the Senate Finance Subcommittee on International Trade, members denounced the administration-backed reductions in the trade adjustment assistance (TAA) program that had been included in the omnibus Budget Reconciliation Act, arguing that the Executive Branch had reneged on its commitment to the American labor force. Senator Daniel P. Moynihan (D, N.Y.), chief sponsor of a bill (S. 1868) to extend TAA benefits to more dislocated workers than allowed under the current law, charged that the administration would lose organized labor's support for tariff liberalization and other free trade policies. Subcommittee chairman John C. Danforth (R, Mo.), co-author with Senator Moynihan of another bill (S. 1865) that would delay the effective date of changes in the eligibility requirements, concurred that these program changes amounted to overkill, and announced that his panel would mark up the legislation.

Testifying on the administration's behalf, Department of Labor official William B. Lewis maintained that the administration regarded the TAA program as yet another entitlement program that had to be brought under control if projected deficits were to be reduced. Regarding S. 1868, in particular, he maintained that it would return the program to a situation under which TAA benefits would be paid to many workers whose unemployment was not "clearly attributable" to national import policies. The consensus from organized labor was bitter. Evelyn Dubrow of the International Ladies' Garment Workers Union and Leonard Page of the United Automobile, Aerospace and Agricultural Implement Workers (UAW) argued that Washington

broke its 20-year old covenant with labor and that any claims that the TAA program had been strengthened were hypocritical.

Steel Import Policy

Steel import policy remained a major issue in 1981 in U.S. trade policy. The trigger price mechanism (TPM) that had been removed and then reinstated in October 1980 remained in effect through the year. However, by mid-year Commerce and the domestic steel industry were becoming increasingly concerned about possible widespread evasion of the trigger price mechanism. Secretary of Commerce Malcolm Baldrige revealed on June 26 that his department was looking into 11 instances of possible dumping or foreign-government subsidization in steel trade. Baldrige also confirmed that the Customs Service was investigating possible fraudulent practices in the sale of imported steel in the United States. Such practices, allegedly employed to circumvent the TPM, included false descriptions of merchandise, double invoicing, false damage claims, the use of false terms of payment and undeclared rebates. On July 2, the Commerce Department launched the first antidumping investigations of foreign-made steel mill products of 1981. Under investigation for possible sales at less than fair value were steel wire nails imported from Japan as well as from Korea and Yugoslavia. The Commerce Department also examined imports of alloy tool steel from West Germany, Japan and Austria as well as stainless steel bar from Korea, West Germany and France as a result of Commerce's specialty steel monitoring program.

At a meeting of the Senate steel caucus in the late fall, the steel issue again surfaced when Secretary Baldrige announced that, in accordance with the Tokyo Round agreement codes, his department would initiate antidumping and countervailing duty cases against five foreign steel producers allegedly exporting to the United States below the trigger price level. Mr. Baldrige also told the caucus that given his department's limited resources, the "pre-clearance" system, under which certain foreign exporters could obtain permission to ship steel to this country below the trigger price level would also be abolished.

Many interpreted the administration's landmark decision as an attempt to ward off a barrage of industry suits, which Secretary Baldrige acknowledged could mean the demise of the entire trigger price program. On the heels of his announcement, however, U.S. Steel Corporation announced on December 1 that it was filing suits against steel firms in nine foreign countries for unfair trading practices, contending that the Commerce Department action was not broad enough. These suits remained to be acted on in 1982.

Part VI

Bilateral Economic Developments

Overview

The previous parts of this yearbook have presented the setting for the bilateral economic relation-

ship and this part turns to the major economic developments and policy issues that arose during the year. Many of these, including the dominant ones of automobiles and defense, were continuations of disputes or dialogues that began in 1980 or earlier, while others, such as the question of market access newly entered the scene.

Bilateral trade data, based on U.S. government data, are considered first, since they affect perception of the relationship in both countries. In fact, the bilateral trade data have often been blown far out of proportion to their true significance. In 1981 the bilateral imbalance widened dramatically in Japan's favor to \$15.8 billion (on an f.a.s.-value basis) and thus contributed to the criticism of Japan, as previously mentioned in Part II. Economic conditions in both countries described in detail earlier in this yearbook, including the sluggish growth in Japan and high U.S. interest rates contributing to a low value of the yen, all helped slow U.S. exports to Japan while imports continued to expand.

Automobiles are the single most important Japanese export item to the United States and provided the dominant economic issue of the year. As such, it is accorded a separate section (as it was in the previous yearbook).

When the Carter administration left office, it had managed to weather the onslaught of pressure from the United Auto Workers and parts of the automobile manufacturing industry to impose restrictions on auto imports from Japan. But the issue was still brewing, placing the new administration in a major economic policy dilemma before it had time to work out overall policy or to establish its own relationships among the various agencies and departments responsible for decision-

making in this area. Threatened by protectionist legislation in Congress, and encouraged by the willingness of the Japanese government to offer a voluntary export restriction (despite vigorous opposition from the Japanese automobile manufacturing industry), it was no surprise that the result at the beginning of May was a protectionist one.

The interesting outcome of this episode was that it did not lead to an emphasis on protection as the guiding principle in trade policy under the Reagan administration, as is considered in the next section after automobiles. In fact, the Reagan-Suzuki summit meeting at the beginning of May went well on economic matters (although Mr. Suzuki found himself in some trouble at home over the wording of the section of the joint communique dealing with defense). However, the auto issue did follow the route of countless other trade disputes with Japan—threatening legislation in Congress, heavy pressure from the executive branch, and willingness to accommodate to U.S. demands. This could only have reinforced the image that Japan is susceptible to manipulation by Washington.

It is to the administration's credit that as its policy goals became more clearly formulated over the summer, the decision emerged to emphasize U.S. access to Japanese markets rather than the trade-restricting option of limiting Japan's access to U.S. markets. Beginning with the Shimoda conference held at the beginning of September in Japan, U.S. government officials served notice that their concern centered on the rising trade imbalance and the relatively closed nature of the Japanese market. These points continued to be made during the fall, during administration testimony to Congress, and in official bilateral meetings in Washington and Tokyo. By the time Secretary of Commerce Malcolm Baldrige went to Tokyo for trade consultations at the end of October, the United States'

position was even more clearly defined. And by November, a list had been prepared of changes desired in Japanese import policies which was the center of discussions at the December subcommittee meetings.

Reinforcing the initiative taken by the administration, Congress held hearings during the summer and fall dealing with market access in Japan, and in December the trade subcommittee of the House Ways and Means Committee issued the third in its series of reports on bilateral trade. A combination of firm statements calling upon Japan to further ease market access for imported products and urging the United States to face the Japanese economic challenge with increased productivity, the report reflected congressional concern that Japan was very complacent about access to its markets and the need to make further changes.

This concern was further reflected in a series of congressional hearings on market-access questions that provided an opportunity for administration officials to air their new policies and views while further arousing congressional interest. Three hearings were held by the Joint Economic Committee from July to September and are covered here. Congress further took the initiative of sending a letter signed by 31 legislators to Prime Minister Suzuki to coincide with Secretary Baldrige's trip to Tokyo in the fall, warning that unless greater market access was achieved it would be difficult to avoid protectionist measures in Congress. While no protectionist moves materialized other than on automobiles early in the year, the mood of Congress was clearly moving in that direction.

By December, Congress was becoming more threatening. The Senate Finance Committee passed a resolution embodying for the first time the idea of equivalent or reciprocal market access between Japan and the United States. The threat was closure of American

markets in retaliation for Japanese refusal to change its import policies. While this differed somewhat from the approach taken by the executive branch, it did add a more urgent tone to the administration's pressure on the Japanese government in a manner that recalled past episodes of trade tension. The idea of reciprocity, defined in a number of different ways, was set to become one of 1982's major bilateral issues.

Paralleling and strengthening the U.S. position, the European Community (EC) also became more vociferous in its complaints about access to Japanese markets. Criticism of Japan was especially strong when a Keidanren delegation visited the EC in October. Some EC countries also followed the U.S. lead in restricting automobile imports, with Japan offering to restrain shipments to West Germany and Belgium within one month of the agreement with the United States.

Separately, Washington continued to press the question of defense spending in Japan. The administration chose to emphasize its estimates of Japanese defense requirements in order to dovetail them with the changing U.S. defense posture in the western Pacific. No major disagreements flared up in public, and the United States acknowledged Japan's efforts to give priority to defense spending in formulating the FY 1982 budget during a period of fiscal austerity. There was no doubt, however, that the United States continued to hope that Japan could be convinced to contribute more in the future. At least the year ended without any effort to tie defense issues or demands to the rising economic disagreements. However, a variety of bills and resolutions were introduced in Congress concerning Japan's defense efforts.

The Japanese response to economic pressure was to be accommodating where possible and to criticize the United States when it could. For example, during Prime Minister Suzuki's Washington visit in May, the mutual reduction of semiconductor tariffs was announced—a move that defused a potentially troublesome issue. But when the United States was drawing up its lists of market-access limitations in November, Japan also put together some complaints about policies in U.S. markets. And on the issue of the rising trade imbalance, the Japanese clearly blamed the United States for maintaining high interest rates which depressed the yen's value. As the pressure intensified, the Japanese began searching for an appropriate response, and on December 16, the Japanese Cabinet made its first definite decision and embarked on a crash program to draw up a list of feasible concessions to be offered to the United States and other trading partners. This culminated in the list of 99 items announced

at the end of January 1982 that subsequently formed the basis of so much discussion.

Besides the major auto and defense issues, a host of other developments took place during 1981 which are organized here by sector. One of the most bitter was the continuing dispute over civil aviation, which concerned the terms of scheduled and charter air service between the two countries. Other issues ranged from further developments in the very long-standing dispute on color television imports in the United States to the new problem of how to treat California fruit and vegetable exports to Japan following the outbreak of the medfly infestation.

Rounding out the discussion is a consideration of direct investment activity by firms of each country in the other. As investment has mounted in each direction, it has served to further strengthen the economic ties between the two countries.

Comparison to the Carter Administration

The first two years of the Carter administration were also characterized by high tensions on the economic front, and that experience provides some interesting similarities and contrasts with the first year of the Reagan administration. In both cases, sectoral demands for protection emerged before a policy framework could be devised. While the Reagan administration was confronted with the auto problem, the Carter administration had to deal with demands from color television and steel producers. In both instances, the result was protectionism.

A major difference was the emphasis given to market access. As illustrated by the issues discussed during the color television and steel debate, public perception in 1977 and 1978 focused almost entirely on unfair

Japanese exporting behavior. Complaints in 1981 center much more on Japan's behavior on imports. Its success in American markets was acknowledged to be due to genuine competitive advantages and has led to various calls for the United States to improve its own competitiveness.

Another major difference was the absence of any major General Agreement on Tariffs and Trade (GATT) negotiations. Much of the pressure under the Carter administration was related to bringing the Tokyo Round of multilateral trade negotiations (MTN) to a successful conclusion. One would expect that without the many simultaneous issues that were related to the MTN pressure on Japan would have declined. This did not prove to be the case, however, as the irritation expressed by the administration and the press was as severe as four years earlier. Rather than concentrating on individual problems as they occurred, Washington developed a blanket approach, creating a large number of issues even in the absence of an MTN framework.

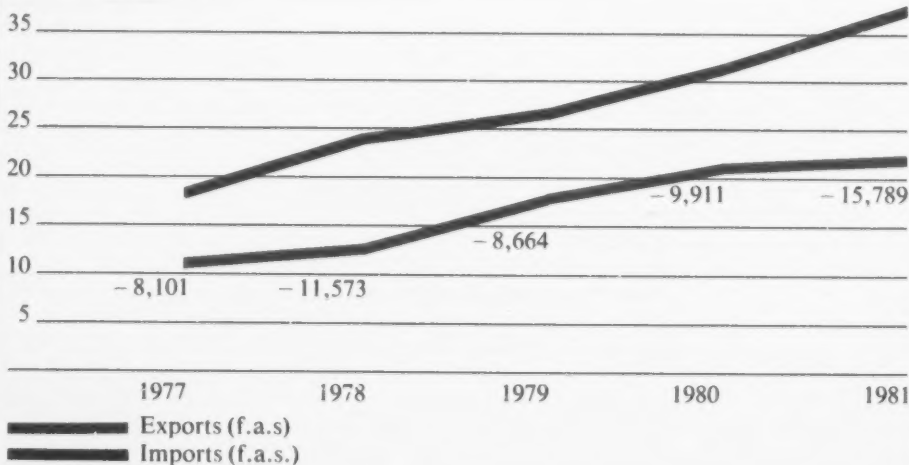
In its handling of bilateral defense matters, the Reagan administration deliberately avoided emphasizing the percentage of GNP spent on defense in Japan since that episode in the Carter administration was so poorly received two years earlier. But the overall pressure on Japan to improve its defense contributions has increased since the Carter years.

United States-Japan Trade

The strong U.S. dollar on top of depressed conditions in key Japanese industrial and agricultural sectors and pockets of robust demand in the otherwise sluggish American economy produced a record-shattering U.S. trade deficit with

Bilateral Trade

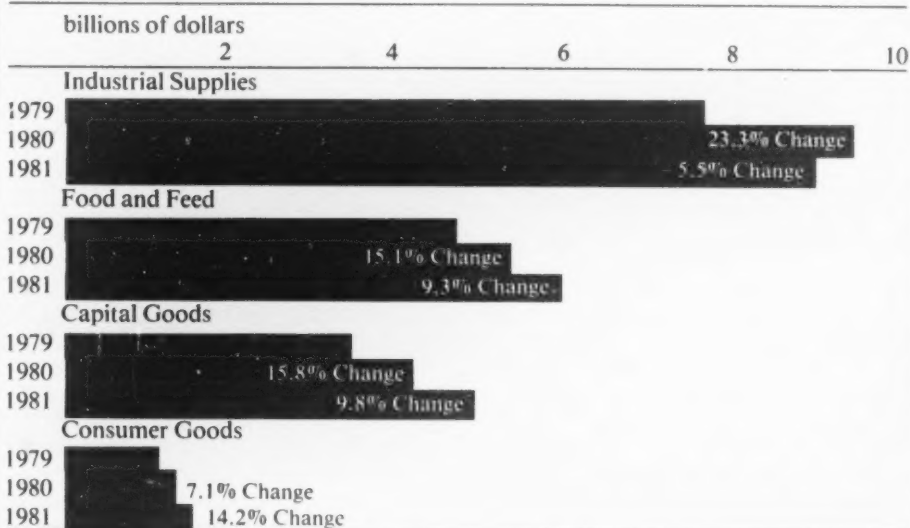
millions of dollars



Source: Department of Commerce

Japan in 1981. At \$15.8 billion, the bilateral red-ink trade entry topped 1978's then-peak deficit by \$4.2 billion and exceeded 1980's near-record imbalance by \$5.9 billion. U.S. exports to Japan marked time through much of 1981, with the result that full-year sales were up only 5 percent to \$21.8 billion—the smallest gain in four years. American purchases from Japan, in contrast, showed renewed vigor, jumping 22.5 percent to \$37.6 billion.

U.S. Exports to Japan



Source: Department of Commerce

U.S. Exports to Japan

Sagging sales of important industrial supplies were the main drag on overall export growth in 1981, with aggregate shipments falling 5.5 percent to \$9 billion. Logs and lumber, which skidded by one-third to \$1 billion, were a casualty of the protracted slump in the Japanese housing industry. Paper base stocks also tumbled by nearly one-fourth to \$0.5 billion-plus. Equally important, exports of nonferrous ores and scrap and nonferrous metals reversed course and fell by three-tenths to just under \$1 billion; so did steel scrap shipments. Compounding the impact of big drops in these industrial supplies was a dip to \$0.5 billion in cotton exports, a decline in deliveries of nuclear fuels and flat sales of fertilizers and insecticides. To make matters worse, even those intermediate goods that managed to chalk up additional sales gains in 1981—like hides, plastics and paper products—posted increases generally in the moderate range. For example, coal exports expanded by just one-eighth to \$1.5 billion, or in line with the growth of shipments, and sales of organic chemicals went up by one-sixth to \$0.7 billion. Admittedly, some industrial supplies did ring up hefty export increases, including inorganic chemicals (up by one-third to \$0.5 billion), natural gas, petroleum products and

tobacco, but they were a decided minority.

Food and feed turned in another steady performance in 1981, but the 9.3-percent rise in shipments to \$5.9 billion did little to save overall exports from their mediocre showing. Corn exports increased by one-tenth to \$1.8 billion, with higher prices supplying all the momentum, while soybean sales expanded marginally to \$1.1 billion, again the result of higher prices. Wheat exports also inched up on higher prices, reaching \$0.6 billion. More

firmly entrenched in the plus column were fish sales, which rebounded by nearly two-fifths and hit \$0.5 billion-plus, and meat exports, which staged a recovery that was only slightly less spectacular in topping the \$0.5-billion mark. Fruits and vegetables also did extremely well in 1981, but sales of sorghum and animal feeds were off by significant margins.

Mirroring the dull tone of Japanese plant and equipment investment, capital goods exports expanded by a scaled-back 9.8 percent in 1981 to \$4.8 billion. Some product groups were the beneficiaries of strong Japanese demand—most notably, data-processing equipment, which experienced another sizable gain, this one of a fourth to \$0.7 billion-plus, and commercial aircraft, which climbed by one-fifth to \$0.8 billion. Oilwell-drilling equipment also did well, as did certain other types of specialized industrial machinery and selected kinds of electric equipment. Exports of measuring and testing equipment expanded by a fairly strong margin, too, but other types of high-technology products, including scientific and professional equipment and laboratory testing and controlling instruments, as well as such diverse products as service-industry equipment, machine tools, nonelectric power-generating equipment and automotive parts turned in disappointing sales

performances. In addition, shipments of aircraft parts tumbled, joined in the minus column by cars.

Consumer goods provided some fillip to export growth during 1981, as sales advanced 14.3 percent to \$1.3 billion. Pharmaceuticals, which climbed by one-third to just under \$0.5 billion, continued to be the main source of export gains, but their strong showing was buttressed by sales increases in product lines ranging from cigarettes, printed material and toys and sporting goods to jewelry and antiques and gemstones.

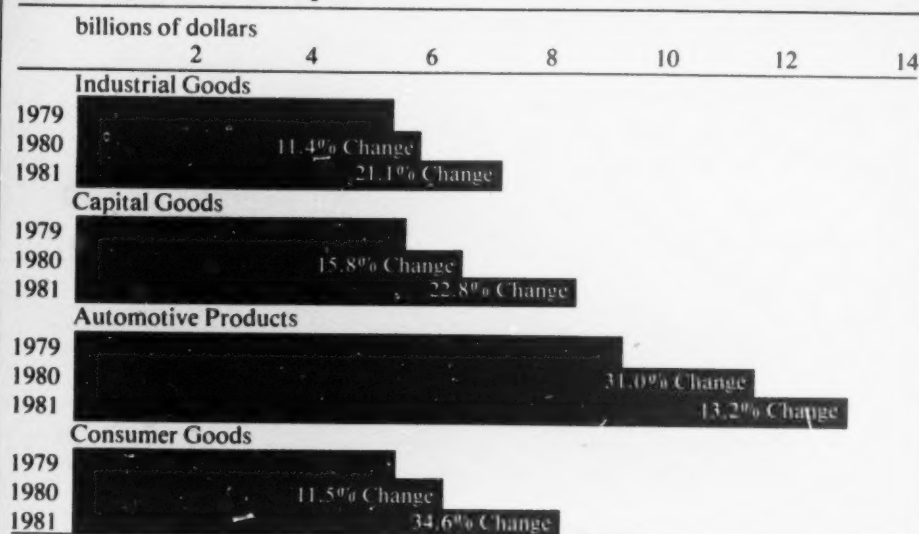
U.S. Imports from Japan

The continued resiliency of American demand for Japanese-made goods in the face of lagging U.S. economic growth was not the only unexpected development in the 1981 import picture. Equally surprising, automotive products were bumped from their pacesetter role by consumer goods and capital goods. While sharing top billing, consumer goods were first among equals, as imports soared 34.6 percent to \$8.3 billion. Sparking much of this surge were purchases of video cassette recorders, which doubled and topped \$1 billion, although big gains were chalked up as well by audio tape equipment, television sets, clocks and watches and clothing. The import tally was also swelled by a rebound in purchases of photographic equipment and by moderate increases in imports of electric appliances, tableware, toys and sporting goods and radios. Motorcycles, which led the import expansion in 1980, played a supporting role, expanding by about one-seventh to \$1.3 billion.

Although U.S. business investment was generally in the doldrums for much of 1981, purchases of capital goods climbed 31 percent to \$8.6 billion as Japanese manufacturers continued to exploit healthy niches in the market. Imports of business machines were extraordinarily brisk, with rapidly expanding deliveries of copying machines and data-processing equipment propelling imports up by more than one-half to \$1.8 billion. Another big jump in purchases of machine tools, this one of two-fifths to just under \$0.8 billion, also boosted the import count, as did a gain of one-fourth to \$0.5 billion in imports of specialized industrial machinery. Scientific and professional equipment rang up additional strong import increases, while farm tractors staged a weak recovery after declining sharply in 1980. Some types of electric machinery made further inroads into the American market, notably television cameras, telephone apparatus and switchgear, but purchases of semiconductors, the import pacesetter of earlier years, dipped.

The depressed state of the American automotive market and Japan's voluntary export

U.S. Imports from Japan



Source: Department of Commerce

restraints on car shipments to the United States combined during 1981 to moderate the expansion of imports of automotive products. Purchases did increase 13.2 percent to just under \$13 billion, but the rise was only three-fifths of 1980's gain. Moreover, in a major shift, automotive parts provided most of the growth momentum, jumping by three-tenths to \$1.4 billion. Car purchases, in contrast, expanded by a scaled-back one-eighth-plus to \$9.5 billion, with all of this increase reflecting higher sticker prices and a shift in the product mix; shipments, in fact, slipped 4 percent to 1,911,525 units. Off by a larger margin were deliveries of small pickup trucks, which edged down 5.2 percent to 455,376 units, leaving the import value virtually unchanged at \$2 billion.

Rising purchases of intermediate goods also played a significant role in 1981's overall import expansion, as entries advanced 21.1 percent to \$7.2 billion. Re-emerging as the pacesetters, imports of steel mill products climbed by one-third to \$3.8 billion, pushed up by purchases of higher-priced pipe and tube that more than offset sagging imports of sheet and plate and rods and bars. Textiles also rebounded from a two-year decline, jumping by nearly two-fifths to \$0.5 billion, while organic chemicals and tires and tubes continued to show renewed vigor. As a partial offset, though, purchases of nonferrous metals plunged, triggered by a significant cut-back in copper imports and arrivals of industrial fasteners dipped.

The Bilateral Automobile Settlement

One of the most difficult issues the Reagan administration faced as it came into office in 1981 was

the automobile problem, and more specifically whether to limit imports of fuel-efficient cars from Japan. The issue, according to a background paper prepared early in the administration by senior staff experts, was "Should the U.S. Government seek formal restraints by the Government of Japan on automotive exports to the U.S. market as part of an administration program to resolve problems confronting the domestic automobile industry?" If the question was succinctly phrased, however, it was extraordinarily difficult for the Reagan administration to answer coherently.

New Administration Gropes for a Policy

Interagency Task Force Formed The first move of the Reagan administration was the announcement by Transportation Secretary Drew Lewis at the end of January of the formation of an interagency task force to address the problems confronting the beleaguered U.S. auto industry. The task force included Treasury Secretary Donald T. Regan, Commerce Secretary Malcolm Baldrige, Labor Secretary Raymond Donovan, U.S. Trade Representative William Brock, and Council of Economic Advisers Chairman Murray L. Weidenbaum. Secretary Lewis indicated that among the possible remedies his panel would consider, he was inclined against import restraints, but favored the easing of certain federal regulations "without sacrificing the necessary safety and emission standards."

As the task force began its work, it soon became clear that in many respects the automobile issue involved the Japanese only peripherally, since no one charged them with unfair trade practices or accused them of being the main cause of the problem. As a result, there was no unified opinion within the

United States on the question of restraining imports from Japan, reflected by the deep division on that question that was visible within the Reagan cabinet. The issue was whether or not restricting Japanese auto imports would materially aid the U.S. auto industry, and at what cost.

The Reagan administration policymakers split into two major camps. Secretaries Baldrige, Lewis, and Donovan, plus USTR Brock were urging a negotiated agreement. The crux of the argument offered by the Commerce Secretary and his supporters was that voluntary restraints would not have a large inflationary effect, while legislated restraints would create an inflationary bias. In addition, Secretary Baldrige pointed out that legislated quotas would effectively erect nontariff barriers and in turn invite foreign retaliation.

The main point that Secretaries Baldrige and Lewis sought to drive home, however, was that negotiated import limitations would not restrict free trade since, in their view, such a relationship had never existed between the United States and Japan because of trade restrictions in Japan. Citing Japan's import restrictions on beef, citrus products and tobacco, Secretary Baldrige asserted that for the United States to forego any sort of import limitations on automobiles would be to "unilaterally disarm ourselves in our trade relations."

The opponents to automobile import restrictions contended that negotiated restraints would aggravate inflation and prompt similar demands from other beleaguered industries. This group included Office of Management and Budget Director David A. Stockman, Secretary of State Alexander M. Haig, Jr., Treasury Secretary Donald T. Regan and Council of Economic Advisers Chairman Murray Weidenbaum. They believed the administration should pursue greater competition in the marketplace, a major feature of the economic policy that brought President Reagan into office. Restricting automobile imports ran counter to their philosophy, since it would reduce competition, raise prices and possibly slow auto industry adjustment. Making such a major exception to the overall policy so early in the administration, they argued, would undercut its credibility.

Signals from Japan The auto issue became further complicated in late January/early February by signals from Japan favoring a negotiated voluntary export restraint despite the fact that the Reagan administration was still in internal disagreement over what policy line to follow. At the same time that automobiles were a problem in the United States, the European Community (EC) was raising the same issue. Reports that Japan might be ready to voluntarily restrict exports to the EC

caused USTR Brock to warn Japan's ambassador Yoshio Okawara that such a move would leave the U.S. government unable to restrain the protectionist forces in Congress. Immediately following the Japanese-EC meeting in late January, Minister of International Trade and Industry (MITI) Rokusuke Tanaka told U.S. Ambassador to Japan Mike Mansfield that the Japanese government had not made any promises for "strong" restraint on auto exports to the EC, the meaning of which was somewhat ambiguous. Mr. Tanaka also said that he wanted to go to Washington at the earliest possible date for negotiations on automobiles. These statements were interpreted by some U.S. observers as a desire to negotiate an orderly marketing agreement (OMA) with the United States. With that done, there would be more room for OMA negotiations with the EC without fear of stiffer reprisals from the United States.

These signals from Japan made the administration's job that much more difficult because congressional leaders pointed to them and asserted that the United States should not hesitate to seek restraints since the Japanese government was already considering them. By mid-February, the move toward some form of voluntary restriction seemed to be gathering steam. On February 11 and 12, Ministry of International Trade and Industry Vice Minister Naohiro Amaya conferred with United States Trade Representative Bill Brock. Mr. Amaya delivered a MITI forecast for first-quarter auto exports to the United States and expressed dismay over the Danforth bill placing a quota on the import of autos. According to the forecast, auto shipments to the United States in the first quarter of 1981 would be 2 percent below the volume of a year earlier. In Mr. Brock's opinion, however, the forecast was unlikely to quell the protectionist sentiment in Congress. After Mr. Amaya's return from Washington, the feeling at MITI was that the U.S. government wanted a commitment that the Japanese would restrict car exports to the United States to 1.5 to 1.6 million units, and that negotiations to achieve that result would begin as soon as the cabinet-level auto task force appointed by President Reagan completed its report (which they assumed would officially call for restrictions).

After this, Japanese government initiatives to bring about voluntary restraint of automobile exports to the United States became more clear. During his visit to Washington on February 24 and 25, Japanese Representative for External Economic Affairs Saburo Okita indicated to USTR Brock the Japanese desire to achieve some political solution prior to Prime Minister Suzuki's arrival in Washington on May 7. (This type of commitment has become something of an

obsession with the Japanese, who feel strongly that a state visit should not be marked by any divisive issues.)

Who Is in Charge? Even though the Japanese government was now in agreement that a political settlement should be sought, there was some confusion over who would be in charge of the negotiations. At his press conference after the meeting at USTR, Dr. Okita stated that he and Ambassador Brock would be the negotiators, a position supported by the Foreign Ministry in Tokyo. However, the Ministry of International Trade and Industry (MITI) had been trying very hard to take the initiative in this issue and immediately attacked this arrangement, claiming support from the Prime Minister on the grounds that the issue involved coordination of domestic production, outside Foreign Ministry authority. More was at stake than just personalities since Dr. Okita had been less willing to see a restriction on automobile exports than had MITI. In the end, MITI remained in charge of the outcome.

Japan was not alone in displaying confusion and bickering over which agencies and personalities would be in charge of the issue. During the last week of March, Secretary Haig, in his meetings with visiting Japanese Foreign Minister Masayoshi Ito, was reported to have said that he had taken charge of the administration's talks with Japan on auto imports. This sparked rather vociferous reactions, not only from USTR, but also from the Congress, which had established this agency's preeminence in trade matters by legislative statute.

A bipartisan group of senior Ways and Means Committee members sent a letter to the President expressing their "deep concern about any suggestion that any agency... other than the U.S. Trade Representative, might take the lead in an international trade negotiation... as sensitive as the auto issue." The signatories included Ways and Means chairman Dan Rostenkowski (D, Ill.), Trade Subcommittee chairman Sam Gibbons (D, Fla.), Barber Conable (R, N.Y.), Guy Vander Jagt (R, Mich.) and Bill Frenzel (R, Minn.). They pointed to the Trade Act of 1974 and the Trade Reorganization Plan of 1979 as explicitly designating the U.S. Trade Representative as the chief negotiator in trade disputes. In their view, the auto issue was clearly a trade issue, and not a foreign policy matter, thus coming under the jurisdiction of USTR. When the dust finally settled, USTR Brock reasserted his agency's primacy for developing and coordinating U.S. trade policy and for conducting international trade negotiations.

Task Force Results On April 6, the Reagan administration did announce the results of the interagency task force set up at the end of January. The package of measures pro-

posed was just as notable for the help not offered as for the actions proposed. The centerpiece of the plan was the proposed elimination, modification or postponement of 34 environmental and safety regulations for cars and trucks. Not included in the administration's aid package were the refundable investment tax credits that Detroit had asked for. Far more importantly, there were no calls in the plan for import restrictions. "The industry must solve its own problems," Vice President George Bush said in unveiling the package. Aside from pressing Congress to pass the Reagan economic plan, he stated, all the government could do for the industry was to make sure it did not hamper recovery efforts with unnecessary regulations.

The opinion held by the Japanese just prior to the announcement was that the United States would send a briefing mission to Japan in conjunction with the release of the auto task force proposals to discuss details of method and a suitable timeframe for the Japanese export restraint program. This view was premature as the deep divisions within the Reagan cabinet became evident again and prevented the emergence of a strong policy by April 6. After the announcement of the package, the administration did send the expected briefing mission to Japan to explain the measures, but it was not the high-level group to discuss a Japanese export restraint program expected by the Japanese. Instead, the briefing mission was very pointedly described by the U.S. government as a low-level group, one whose sole responsibility was to explain the contents of the auto proposals; negotiations or discussions on export levels were specifically excluded from the mission's mandate.

After the briefings in Tokyo, MITI Minister Tanaka announced that the absence of specific signals had not altered his belief that voluntary restrictions were necessary to prevent legislated quotas in the United States. Evidently, on the third and final day of the briefing session in Tokyo (April 9), the Japanese were informed that legislated restraints on auto imports were very likely to pass Congress and that any other forecast was unduly optimistic. Japanese government officials remained convinced, therefore, that the U.S. government preferred voluntary restrictions on Japanese auto exports, despite the pronouncements of Vice President Bush and the absence of any mention of imports in the auto task force report. The American group had delivered a forecast of auto sales in the United States in 1981 of about 9.5 million units, and rumors were circulating in Tokyo that MITI felt that 1.48 to 1.50 million units from Japan would satisfy the United States.

Shuttle Diplomacy Based on its assessment that some action was necessary, MITI decided to send Mr. Amaya to Washington at

about the same time as a delegation of Liberal Democratic Party (LDP) members to discuss the situation with administration officials. As it turned out, Mr. Amaya remained in Tokyo to meet individually with auto manufacturers, but the delegation arrived in Washington on April 14 and in meetings with members of Congress, Secretary of Commerce Malcolm Baldrige and officials at USTR, they heard little that was new. Administration officials suggested that while legislated quotas might well pass Congress, voluntary restrictions could deflect congressional pressure. Senator William Roth (R, Del.) and others on Capitol Hill reinforced that idea, saying that they would personally prefer voluntary restrictions to legislation. The administration, meanwhile, maintained its position against suggesting specific numbers to the Japanese. The delegation left, however, with the impression that a three-year period of restraint would be regarded as appropriate by Washington.

Back in Japan, MITI Minister Rokusuke Tanaka met on April 25 with the heads of the major Japanese automobile companies. Although MITI had hoped finally to wrest some concessions from them on voluntary restrictions, none were forthcoming. The manufacturers would agree to no more than a willingness to hold exports to their 1980 level of 1.82 million units, a minimal concession that the Reagan administration felt would not cool protectionist feelings on Capitol Hill.

MITI Deputy Vice Minister Naohiro Amaya was to leave after the discussions with the auto industry and convey the results to Washington. Even though there were no results, the trip went as scheduled and on Sunday, April 26 Mr. Amaya left for Washington. At the same time, USTR announced that Mr. Brock would leave for Tokyo on April 28—USTR had been resisting for several weeks Japanese requests to send him—and further confused the Japanese as to the purpose of Mr. Amaya's trip. Even the purpose of Mr. Brock's trip was not elucidated by USTR, except that there was no change in the administration's inability to negotiate numbers on imports.

Once Mr. Amaya arrived in Washington, one of his objectives was apparently to sound out whether a MITI-imposed export restraint level of 1.7 million units for 1981 would appease Congress; another was to clarify the antitrust implications involved. Positive responses to these questions would strengthen MITI's hand in dealing with the auto industry. Mr. Amaya was reported to have told Commerce Secretary Baldrige that if MITI imposed voluntary restrictions, he expected the Reagan administration to do its best to stop passage of the Danforth-Bentsen bill (described below). At the Justice Department, Mr. Amaya was told that there was

probably no violation of U.S. antitrust statutes involved in voluntary restraints, but that the Justice Department would provide the Japanese with a written opinion on May 2. This would not, however, prevent a private antitrust suit. Ultimately, the final important negotiations took place in Tokyo between Brock and Japanese government officials and are considered below.

Congressional Initiatives

Early Hearings At the same time the administration was groping for a policy, Congress began to take its own actions. Unlike the previous Congress, in which the House Ways and Means Trade Subcommittee took the lead, the Senate Finance Committee played the activist role in 1981, chaired by John Danforth (R, Mo.), whose state ranked only behind Michigan in auto production.

The year began with strong congressional statements of support for the U.S. auto industry at hearings in January. While he did not indicate exactly what the Congress should do, or when, Senator Danforth implied that policy recommendations aired at the hearings could become the subject of future committee investigations, or legislation, or both. Senator Danforth and Senate Finance chairman Robert Dole (R, Kans.) both made it known that they were wary of proposals that called for undue government interference with the marketplace, but hoped that the new administration would view autos as a matter of great urgency and move quickly in developing a comprehensive package to save the industry.

Quota Legislation Introduced By early February, after the announcement of the formation of the interagency task force, Senator Danforth and his supporters stepped up their pressure by introducing the threatened bill. News of the Lewis task force was not very warmly received on Capitol Hill, where key members had been pressuring the administration to act as quickly as possible. The general sentiment appeared to be that another study—coming soon on the heels of the one headed by former Transportation Secretary Neil Goldschmidt—was far too time-consuming. As a result, Senator Danforth and the subcommittee's ranking minority member, Lloyd Bentsen (D, Tex.), introduced the bill that would have limited auto imports from Japan to 1.6 million units annually for three years. Senator Danforth maintained that the legislation was intended to give the U.S. auto industry time to retool to build smaller, more fuel-efficient cars that could better compete with Japanese models, as well as send a strong signal to the Japanese that it would be in their interest to restrict voluntarily auto exports to the United States. Mark-up of the bill was scheduled for May 12, the week following Prime Minister Suzuki's visit to

Washington in order to give the administration additional leverage in its talks with the Japanese. A number of other bills imposing more stringent quotas or local content requirements were also introduced, but none of them was regarded as seriously as the Danforth-Bentsen bill.

In early March, hearings intended as a general discussion of Senator Danforth's bill were held before his Subcommittee on Trade. Key Reagan administration policymakers used this opportunity to come out against legislation that would impose import quotas on Japanese automobiles, arguing that quotas would be extremely "counterproductive" at this time. In testimony, Commerce Secretary Malcolm Baldrige and Transportation Secretary Drew Lewis both indicated their support for negotiated rather than legislated restrictions on automobile imports. USTR William Brock, while not wholeheartedly supporting import restrictions, nevertheless added that he felt negotiated limits were preferable to legislated quotas in order to give the auto industry more help before the full effect of the Reagan economic program could be felt. In his opinion, President Reagan had full authority to negotiate an orderly marketing agreement that would not create antitrust problems—a view the Carter administration had strongly contested.

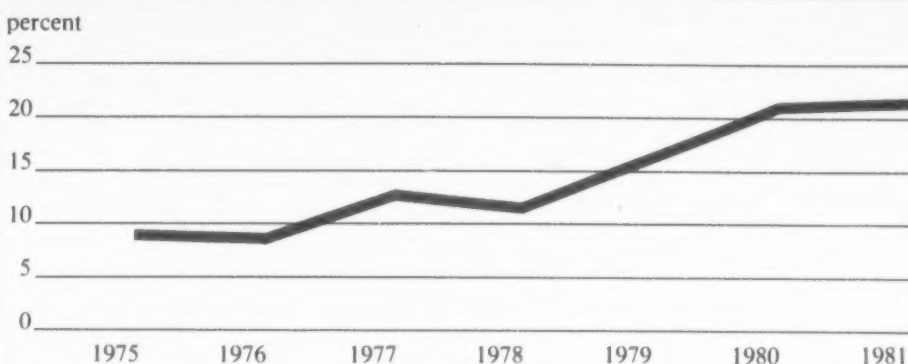
Although the ultimate bilateral settlement of the auto issue was controlled by the administration, congressional pressure along with the willingness of the Japanese to discuss export restraints made it more difficult for the administration to stick to a strict free market policy. Once the settlement was reached, the Danforth-Bentsen bill was tabled and no further action was taken during the year.

Creation of the "Non-Agreement"

The Final Outcome On May 1 a "non-agreement" emerged from the "non-negotiations" between USTR William Brock and Japanese government officials in Tokyo, which put an end to the long and tortuous conflict over imports of Japanese-made automobiles. While many observers heaved a sigh of relief that it was finally over, and that the restrictions were less severe than those contemplated by Congress, none of the concerned parties gained much from the agreement.

The Japanese offer, which led to the tabling of quota legislation in the Congress was to run for two years, starting from April 1, 1981. During the first year, shipments of passenger automobiles (excluding seven types of station wagons and four-wheel drive vehicles plus shipments to Puerto Rico) to the United States were to be held to 1.68 million units. In the second year, shipments would be 1.68 million, plus 16.5 percent of whatever

Japanese Share of U.S. Auto Market



Source: Automotive News

growth occurred in the U.S. market. The question of what would happen if the market declined rather than grew was apparently not resolved. In addition, the Japanese government said that in the third year it would re-evaluate the situation to see if restrictions should be continued.

Faced with MITI's offer, Ambassador Brock's acquiescence, and the resulting collapse of congressional action, the Japanese automakers had no choice but to accept the decision. Any other response would have brought charges of obstructionism. In its public statements, the industry had been adamantly opposed to anything more than a one-year restraint level of 1.82 million units, but it must have been aware of MITI's intention and was prepared to accept defeat when MITI reached agreement with Brock. However, anger and disappointment remained and very difficult problems still needed to be solved in allocating the quota among auto companies exporting to the United States, discussions pitting the large companies against the small.

The sticky question of invoking the Foreign Exchange Control Law to compel the automakers to restrain shipments was finessed by having the industry voluntarily comply with MITI's quota on the grounds that otherwise the law would be invoked to achieve the same result. This precluded MITI from actually using the law, which is not normally called upon in trade disputes, and would be regarded by all industries as an unwarranted expansion of MITI's power. This action probably removed the industry from antitrust problems in the United States, since it could argue that it was compelled by its government to restrict exports.

To preserve the administration's free-trade image, and presumably to avoid anti-trust complications, the Brock trip was not billed as a negotiating exercise. The USTR was there only to advise the Japanese government as to whether its policies would appease Congress. For all practical purposes, the events of April amounted to negotiations; the Reagan administration could not escape re-

sponsibility for presiding over a protectionist settlement of the automobile issue.

Reactions Reaction to the "non-agreement" was mixed in the United States. The Reagan administration, eager to resolve the auto-import controversy, welcomed Japan's decision to limit car exports to the United States. USTR William Brock termed it "a very forthcoming and positive step" that strengthened the prospect of recovery in the domestic auto industry. In his view, the agreement would make it easier for the industry to obtain financing for retooling to make small cars because the future level of car purchases from Japan would be more predictable.

Congressional leaders were more restrained in their response, calling Japan's decision a step in the right direction or the best that could be expected. Senator John Danforth, stated he would shelve his quota legislation, at least for the time being, although he "reserved the right to reactivate" the bill if circumstances warranted doing so. He also maintained that the restraint period in the voluntary agreement was too short and the allowable export level too high. Senator Bentsen added that Congress would continue to watch the situation very carefully. U.S. automotive industry executives gave an equally low-key welcome to the announced cutback in Japanese car shipments. Ford Motor Company chairman Philip Caldwell stated that "Restoring the health of the U.S. auto industry is clearly an essential ingredient of the President's economic recovery program. Voluntary export restraint by the Japanese will make a contribution to that end, and we welcome a disposition of this matter." Lee Iacocca, chairman of Chrysler Corporation, noted that "while this program may not be as extensive as some would like, it does show that our government wants to give this industry the time it needs to get back on its feet." Even United Auto Workers president Douglas Fraser, who had started the campaign to restrict auto imports back in 1980, called the curbs "a modest but positive step

that we hope will improve the job prospects of American workers in the months ahead."

The Allocations On June 24, MITI informed the automobile manufacturers of their individual quotas for exports to the United States for fiscal year 1981 (April 1, 1981 through March 31, 1982). These had been the subject of very quiet discussion between MITI and the manufacturers since the commitment to an overall limit of 1.68 million vehicles was made to the United States. Although all the auto manufacturers expressed dissatisfaction with the allocations, it represented only a ritual protest. The figures were:

Toyota	518,000
Nissan (Datsun)	453,000
Honda	350,000
Toyota Kogyo (Mazda)	159,000
Mitsubishi Motors	
(through Chrysler)	114,000
Subaru	66,000
Isuzu	17,000
TOTAL	1,677,000

This allocation left a small amount (3,000 vehicles) to be allocated later if necessary.

During August, MITI set the limits for exports of station wagons and four-wheel vehicles that were not included in the 1.68 million figure, as well as the limit for shipments to Puerto Rico. The station wagon and four-wheel vehicle limit was set at 82,500 units (for the same FY 1981 period as for other cars) while the Puerto Rico limit was set at just over 70,000 units. This quelled some minor congressional complaints that Japan was planning on using Puerto Rico as a means of getting more cars into mainland United States than promised in the May agreement.

The quotas all applied to exports as reported by the Japan Automobile Manufacturers Association (JAMA), based on factory shipments destined for export. Because of the time lag between leaving the factory and arrival in the United States, imports reported in U.S. statistics over the same fiscal year could be higher than 1.68 million.

Repercussions in Canada and Europe

When the Japanese government announced restrictions on automobile exports to the United States, it stated that similar restrictions on exports to other countries were not under consideration. That position irritated Canada and certain countries in the EC, where there were strong fears that Japanese automobile manufacturers would expand their sales efforts to offset the reduction in shipments to the United States. Both the Canadian government and the EC Commission indicated a desire to obtain restraints equivalent to those applying to exports to the United States.

Canada Canadian officials traveled to Tokyo at the beginning of May to request voluntary restrictions similar to those imposed on exports to the United States. However, when Prime Minister Zenko Suzuki met with Canadian Prime Minister Pierre Trudeau after leaving Washington on May 8, he carried the message that no voluntary restrictions toward Canada would be instituted. Despite Prime Minister Suzuki's statements and MITI's initial insistence that it had no intention of extending the restrictions to Canada or the EC, Japan agreed only a month later to restrict exports to Canada and was under heavy pressure to establish a similar arrangement with the EC. In fact, having given in to pressure from the United States, it was very difficult to argue that restrictions were justified with the United States but not with Canada and the EC.

Meetings took place between MITI officials and Canadian government representatives in Tokyo at the end of May. After three days of bargaining, the Canadians received preliminary assurances on May 28 of a voluntary restraint arrangement, the final details of which were released on June 5. Exports of automobiles to Canada during the year of April 1, 1981 to March 31, 1982 would be held to a level no more than 10 percent higher than in 1980, based on Japan Automobile Manufacturers Association (JAMA) export data. This implied exports no higher than 174,000, slightly over one-tenth of what Japan could ship to the United States during the same period. No provision was made for exports beyond the one year.

EC At the same time, MITI vice minister Amaya was in Brussels for talks with EC officials. Their position was that Japan should exercise voluntary restraints to the EC as a whole at a level no higher than 1980's, in order to prevent any diversion of automobiles from the U.S. market to the EC. The Japanese declined to accommodate the request, arguing that EC-wide restrictions made little sense. Britain, Italy and France already had restrictions, while Greece, Ireland and Denmark had no domestic auto industry. West Germany and the Benelux countries are the only other EC countries, and Mr. Amaya said that MITI had already pledged that no diversion of auto exports from the U.S. to these countries would occur.

However, under continuing pressure from the EC, a decision restraining Japanese auto exports to West Germany and Belgium had been reached by mid June, coinciding with Prime Minister Suzuki's visit for talks with European leaders. Japan had now agreed to voluntary restrictions on auto exports to the United States, Canada, West Germany and Belgium, in addition to existing restrictions in Britain, France and Italy.

West German Economic Minister Otto Lambsdorf traveled to Tokyo to meet with MITI Minister Rokusuke Tanaka, and by June 9 had received a commitment similar to that arranged between Japan and Canada. For calendar year 1981, Japanese car exports to West Germany would be no more than 10 percent above calendar-year 1980's exports. These numbers implied a considerable slowdown in Japan's auto exports to that market for the rest of the year, since exports in the first four months of 1981 were running 61 percent above year-earlier levels. Mr. Lambsdorf also announced that he would conduct negotiations at the end of the year concerning 1982, with the expectation that some form of restraint would continue.

Restrictions to Belgium were more severe. Unwilling to accept the mild West German restraint settlement, the Belgium government pushed MITI to promise an absolute cut in the number of cars. MITI responded with an official forecast of a decline in car exports to Belgium of 7 percent from calendar 1980, while exports to the Netherlands and Luxembourg were to remain at the same level as last year. Mr. Tanaka delivered the agreement to the Belgium government while he was in Paris on June 15.

Surprisingly enough, the Japanese auto industry acquiesced to the European restrictions with more equanimity than to those imposed vis-a-vis the United States. The rationale was that by agreeing to mild, temporary limits for Belgium and West Germany, those countries would remain in the liberal trade camp within the EC. This helped to forestall the specter of EC-wide limits on Japanese car exports, desired by the French and Italians, and much feared by the Japanese.

Concern at Yearend about 1982

The controversy over Japanese car exports to the United States, was dormant after the agreement was reached at the beginning of May, but it flared up again amid mounting signs that sales of American-made cars, which had been on the slide since 1978, would improve only marginally in 1982. Helping to revive the debate were calls in December by Deputy United States Trade Representative David R. Macdonald and Secretary of Transportation Drew Lewis for a review of second-year restraint levels—calls that were immediately rebuffed by leading Japanese auto executives as well as government officials.

The question of what would happen if the market continued to slump was apparently never resolved in the original agreement. With the Department of Commerce and other forecasters projecting 1982 domestic and imported car sales in the 9-million to 9.5 mil-

lion range, or only slightly better than 1981's expected total, this unresolved issue came back to haunt American and Japanese trade negotiators. Some U.S. government representatives suggested that second-year Japanese car shipments be held to the 1.68-million level (which was the eventual outcome announced in March 1982). They also claimed that Japan's car exporters were bound to cut their April 1982-March 1983 U.S. deliveries by 16.5 percent if the American auto market was to remain sluggish in 1982. Takashi Ishihara, head of the Japan Automobile Manufacturers Association and president of Nissan Motor Company, Ltd., said that the Japanese motor vehicle industry would reject proposals to hold exports to the FY 1981 level, even if such proposals were backed by the Japanese government. Moreover, he challenged the claim that exporters agreed to cut back shipments further if the U.S. market did not rebound as anticipated.

Since the restraints were imposed by Japan, the second-year level was to be set based on the Japanese industry's projection of FY 1982 auto sales in the U.S. market. This essentially provided a way out of the dispute, since the Japanese could be less pessimistic about the market than U.S. forecasts, but any forecast that was widely out of line was obviously not feasible politically.

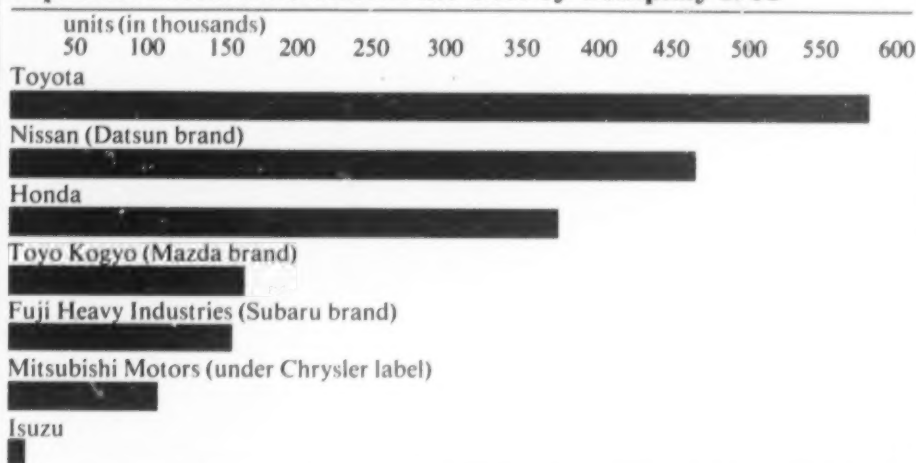
The apparent failure of the restrictions on Japanese auto exports, reinforced by the apparent failure of the auto-parts buying mission from Japan in September 1980, also rekindled congressional concern. At a Senate Finance subcommittee hearing in late November, Ambassador Macdonald told subcommittee members that the Japanese would probably get an even larger share of the U.S. market in 1981 due to inaccurate forecasts of U.S. demand. Earlier, it was estimated that domestic and imported car sales would reach about 10 million during the first year of the voluntary export restraints, reducing Japanese market penetration from 20 percent to 16.8 percent, an estimate that was overly optimistic, as detailed below.

Impact of the Settlement

Curbs on Japan's car exports to the United States did not save 1981 from being a disastrous year for U.S. auto makers. Even though the domestic industry used rebates, credit-assistance programs and other incentives to move their expanded lineup of fuel efficient front-wheel-drive vehicles, the five American manufacturers retailed just 6,206,296 cars in 1981—5.7 percent fewer units than 1980's dismal showing and 25.4 percent off from 1979's mediocre performance. Total sales, including imports were 8,531,531, confirming administration and congressional fears. The only bright spot was

the fact that Chrysler Corporation managed to reverse its long sales slide with an increase of 10.6 percent to 729,873 units. At 3,796,696 units, General Motors Corporation's 1981 sales were down 7.8 percent, while Ford Motor Company's sales declined 6.4 percent to 1,380,600 units. Volkswagen of America Inc. even saw demand for its cars ebb, as sales fell 8.3 percent to 162,445 units, and American Motors Corporation registered another decrease, by 8.5 percent to 136,682 units.

Japanese Automobile Sales in the U.S. by Company 1981



Source: Automotive News

Total: 1,858,913

Imported cars did not fare much better in 1981's depressed market than domestic makes. After bucking the downturn in American-made car sales in 1979 and again in 1980, foreign auto makers watched their U.S. sales dip 2.9 percent last year to 2,325,235 units, although many of them also resorted to sales incentives to boost demand. Still, imports grabbed 27.3 percent of the American car market in 1981, breaking 1980's record share of 26.7 percent. Not surprisingly, these trends paralleled the sales results for Japanese makes. While sales of Japanese nameplates slipped 2.6 percent to 1,858,913 units after posting a year-earlier gain of 7.8 percent, cars imported from Japan captured an all-time high 21.8 percent of U.S. retail sales, or half a percentage point more than in 1980 and considerably above the level expected when the restraint agreement was reached in May.

What was surprising about the 1981 sales report for Japanese makes were the declines registered by the top three import leaders. Stymied all year by tight inventories, Toyota Motor Company, Ltd.'s U.S. sales edged down 1 percent to 576,491 units, while sales of Nissan Motor Company, Ltd.-produced Datsuns dropped 10.1 percent to 464,805 units even though U.S. stocks were adequate. In addition, Honda Motor Company, Ltd., which had to contend with limited supplies for many years, registered a 1.2-percent sales dip to 370,705 units. Joining

these three companies in the minus column was Mitsubishi Motors Corporation, which retails its cars in the United States under Chrysler nameplates, as sales slid by an additional 14.2 percent to 110,940 units. In contrast, the two other Japanese automotive makers that sell cars in the United States broke their previous sales records in 1981. Sales of Mazdas, produced by Toyo Kogyo Company, Ltd., inched up 2.8 percent to 166,105 units, and sales of Subaru, manu-

factured by Fuji Heavy Industries, Ltd., expanded 6.4 percent to 152,062 units. New to the American market in 1981 was Isuzu Motors, Ltd., which retailed 17,805 cars.

To the extent that Americans purchased new cars in 1981, they bought small cars—domestic makes as well as imported nameplates. In fact, sales of American-made subcompacts once again outperformed the market, expanding 5.6 percent to 1,459,694 units. Although sales of domestic compacts fell 8.3 percent to 1,725,180 units, 51.3 percent of all the U.S.-produced cars sold in 1981 were small cars, compared with 49.6 percent two years ago and 43.2 percent in 1979. Moreover, this tally included the three top-selling domestic nameplates—Chevrolet Chevette, Chevrolet Citation and Ford Escort. With the addition of imported makes to the domestic small-car total, subcompacts and compacts captured 64.6 percent of the U.S. car market last year, versus 63.1 percent in 1980 and 55.6 percent in 1979.

Related Automobile Issues and Problems

United States. The Ford-Toyota talks stal-

Ford-Toyota

Ford Motor Company and Toyota Motor Company, Ltd. continued their discussions in 1981 about joint production in the

led for some time over the fundamental question of which vehicle should be produced. The Japanese firm initially proposed that the two companies build a Toyota-developed front-wheel-drive car in the 2,000cc. class, but Ford rejected this idea because the proposed car would have competed head-on with a new compact car the U.S. maker was readying for 1984 introduction. Unable to find a new or existing Toyota car model acceptable to both sides, negotiators for the two companies shifted their attention to a small commercial/utility vehicle. Again, though, no agreement was reached on what model should be jointly manufactured. Other difficult questions concerning production volumes and shared costs helped to stall the talks.

By early June, it once again appeared that the discussions were back on track. The U.S. auto maker noted in a June 1 statement that "representatives of both companies reiterated their determination to reach" an agreement in talks during a two-week visit to Japan by a staff-level team of Ford officials.

Ford's statement stood in marked contrast to the gloomy outlook at the end of the first week of the talks. At that point, Toyota seemed to be losing interest in the project because the Japanese government's decision to curb car exports to the United States eliminated the pressure on the company to invest in U.S. production facilities. Other problems included which company would exercise management control over the proposed joint venture and the possibility of antitrust difficulties in the United States. Toyota also proposed, and Ford rejected, a licensing arrangement for Ford to manufacture one or more Toyota-designed cars.

Although some progress was made in these discussions, both companies acknowledged that the negotiations had a long way to go before any final decision could be reached. A Ford spokesman said that progress was made during the talks on a production site and on an organizational and financial structure for the proposed joint venture. But by July, the negotiations were again stalled. This time the obstacles to surmount included a virtual breakdown in the discussions over Ford's rejection of the small van Toyota had proposed for joint production. Two reasons were given for Ford's decision. One was that demand for the suggested vehicle was too limited (i.e., annual production would be less than the 300,000 units Ford envisioned for the joint venture); the other was that joint production of a small van would not be sufficiently profitable.

A new stumbling block also appeared in late June which helped stifle Toyota's inclination to proceed. This occurred when a Saudi Arabian government leader warned Toyota that it would face retaliatory action by Arab

League countries if it entered into any arrangement with Ford, which is blacklisted by these nations because it has an assembly operation in Israel. Subsequently, the Kuwaiti government joined the Saudis in warning Toyota about a tie-up with the number-two U.S. automaker.

With restrictions being placed on Japan's car shipments to the United States, Canada and Europe, the Middle East was becoming an increasingly important market for Japan's top automaker, with Saudi Arabia buying 117,800 of the 1,502,491 cars, trucks and buses Toyota exported during the fiscal year ending in March 1981. An additional 15,000 or so Toyota vehicles went to Kuwait during FY 1980.

Toyota president Eiji Toyoda declared at a July 2 Tokyo press conference, "We have no alternative car to suggest. Nor are we inclined to make a new proposal."

By late July, it became clear that the obstacles were too difficult for Ford and Toyota to overcome and they shelved their plans to build vehicles together in the United States.

GM-Suzuki

In a move that caught automotive-industry watchers by surprise, General Motors Corporation and Suzuki Motor Company, Ltd., described as the world's largest maker of mini vehicles, announced plans on August 12 to cooperate in the development of new product and distribution arrangements. As part of the agreement, GM purchased 14 million shares of Suzuki stock, which closed August 11 at ¥726, placing the value of the deal at \$43.8 million at the then-exchange rate of ¥232 = \$1.00. While GM's 5.3 percent interest made it the second-biggest Suzuki shareholder, the American auto maker was not to be represented on the Japanese company's board of directors; nor would it participate in management.

There was speculation at yearend that GM might use Suzuki's small cars to either augment or replace minicars that GM had long considered developing. Three options were under consideration: bringing in the cars from Japan; building a Japanese-designed car in the U.S.; or some combination of buying abroad and building domestically. Initial reports said a total of 200,000 cars a year would be supplied. The new design represented a step toward the "world-car"—a standardized car designed to be built and sold in any major market with few changes.

The fact that GM had its own mini car under development was only one reason the automotive trade was surprised by the tie-up with Suzuki. The other was that GM already had a 34.3-percent interest in Isuzu Motors, Ltd., Japan's sixth-largest motor vehicle

manufacturer, since 1971. In a separate transaction, however, Isuzu and Suzuki exchanged 10 million shares of stock as a goodwill gesture.

Mitsubishi-Chrysler

Disagreements continued to characterize Chrysler Corporation's relationship with Mitsubishi Motors Corporation in 1981. In January, both companies offered different public interpretations of their modified distribution agreement. The change affected which company had legal control over Mitsubishi Motors-built cars and trucks already in the United States but not yet paid for by Chrysler—a question that assumed greater importance in light of Chrysler's once-again worsening financial situation. In the past, Chrysler took control of the vehicles as soon as they were offloaded from ships at four West Coast and two East Coast ports. From early 1981, the number-three Japanese motor vehicle producer kept control of the cars and trucks until loaded onto haulers for shipment to Chrysler dealers.

Spokesmen for the American auto maker viewed this change as a legal technicality that would better position Mitsubishi Motors to protect its property in the event of a Chrysler bankruptcy. In contrast, Mitsubishi Motors officials said the modification gave it the go-ahead to set up a marketing subsidiary in the United States—an interpretation Chrysler representatives flatly denied.

The slump in U.S. car and truck sales placed additional pressure on the already strained relationship between the two companies throughout the year. At the beginning of the year Chrysler asked its Japanese partner to cut car and truck shipments in order to adjust to mounting U.S. inventories. Moreover, by February negotiations on the proposals for financial assistance that Mitsubishi Motors made to Chrysler in the previous fall had been suspended. These offers included extending \$100 million to Chrysler as part of a deal whereby Mitsubishi Heavy Industries, Ltd. would buy back the U.S. auto maker's 15-percent interest in Mitsubishi Motors; discussing the possibility of truck assembly on a joint basis in the United States; providing engines for a future Chrysler subcompact; and taking some of the American company's preferred stock—all in exchange for Chrysler allowing Mitsubishi Motors to set up its own distribution network in the United States.

Tensions finally forced Chrysler and Mitsubishi to map out a new framework for their ten-year-old relationship in the late spring that they hoped would eliminate the major sources of friction between them. According to a "Memorandum of Agreed Principles," the Japanese automaker was given

the option to set up an independent distribution network in the United States starting in the fall. In exchange for this long-sought right, Mitsubishi Motors agreed to provide Chrysler dealers with an expanded range of cars and trucks on a nonexclusive basis beginning in 1982. It further agreed to finance "as required" the shipment of vehicles to Chrysler, thereby making permanent what had been a month-to-month agreement since March.

Cab Chassis

On May 20, 1980, the U.S. Customs Service reclassified cab chassis as unfinished automobile trucks rather than as truck parts, thus, changing the relevant tariff rate from 4 percent to 25 percent. In early 1981, Toyota Motor Sales, U.S.A., Inc., the importer of Toyota cars and trucks, appealed to the U.S. Court of International Trade. Legal counsel for the company raised three issues in the appeal. First, they argued that the new tariff classification was erroneous because, with no cargo-carrying capacity in their imported condition, cab chassis were neither finished nor unfinished trucks but instead truck components and parts. They also stated that cab chassis were being classified on the basis of modifications made to them after they cleared customs and not on their imported condition.

The second point raised in the appeal was that Customs' reclassification was arbitrary and capricious. It was arbitrary, counsel asserted, because Japanese-made cab chassis were automatically presumed to be classifiable under the tariff provision for automobile trucks, while cab chassis imported from Europe were assumed to fall under the provisions for chassis. It was capricious, they added, because the Customs and Treasury Department officials involved in the review of the proper tariff classification of cab chassis were unduly and improperly influenced by legislative and executive branch officials and by political considerations in general.

Finally, Toyota's counsel argued, Treasury violated its own administrative regulations and procedures in deciding to reclassify cab chassis. The regulations stated that an established and uniform administrative practice of long standing cannot be changed unless found to be "clearly wrong." This test was not applied or was applied improperly the lawyer asserted.

The Japanese government also sought to get the new tariff level reduced in a series of bilateral discussions which ultimately ended without reaching an accord. During the late-July consultations, held in Geneva within the framework of Article XXII of the General Agreement on Tariffs and Trade (GATT), American trade negotiators reiterated that

there was no chance cab chassis would be reclassified as chassis. The U.S. side did outline how the 25-percent duty could be lowered to 8.5 percent, the statutory rate, or even to 6.8 percent if the President opted to exercise the residual tariff-negotiating authority granted him by the Trade Act of 1974. No commitments were made, however, and there were no formal negotiations. The year ended with no change in the tariff applied to Japanese cab chassis.

Japanese Imports of Auto Parts

In September 1980, a Japanese government-sponsored auto industry mission came to the United States to meet with representatives of U.S. automotive and auto-parts suppliers to discuss purchase of U.S. automotive components. At that time a \$300-million target was set for sales in 1981. During the first of four follow-up sessions scheduled in 1981, MITI officials still predicted that despite a slow start the target would be met, even though at that time only five contracts with five American auto-parts suppliers had been signed.

By the end of the year, it was clear, however, that the target had not been met. U.S. officials vented their disappointment at a Senate Finance Committee subcommittee meeting. The State Department's Assistant Secretary for Economic and Business Affairs Robert Hormats maintained that Japanese auto makers had purchased only \$64 million worth of U.S.-made auto parts for the first half of the year, rather than the \$300 million they had forecast would be purchased. Citing a Commerce Department survey of the American firms contacted in the September 1980 buying mission from Japan, he also noted that of the 80 percent of the firms that responded to the survey, only 12 percent felt that the mission had been very productive in generating a steady stream of new orders. He added that in his view, Japanese auto industry officials appeared to believe that the voluntary restraints relieved them of any need to increase substantially their purchases of U.S. auto parts.

The 1980 mission also had a goal of reducing tariffs on automotive parts. This goal, unlike the first, was met with the Diet's approval of a revision of the Customs Temporary Measures Law. Tariffs on 21 automotive parts were eliminated, including: glass mirrors, chassis springs and leaves, engines, pistons and rings, air conditioners, filtering and purifying machinery, crank shafts, camshafts, bearing housing, flywheels, pulleys, pulley blocks, gaskets, dynamos, motors, plugs, meters and distributors and discs. On one other item (tires and tirecases), the tariff was reduced to 5.8 percent, effective April 1, 1981.

The Shaping of the New Administration's Economic Policy on Japan

discussed in the preceding section. As the auto problem was settled, policy began to coalesce around the more general issues of the bilateral trade deficit and market access problems in Japan, while maintaining to the greatest extent possible a credible liberal-trade position. The "white paper" on trade presented by Ambassador Brock in July outlined the five major components of that policy, as discussed in Part V. Out of that overall program, the administration decided to emphasize in its dealings with Japan, reduction in government barriers to the flow of trade and investment. This choice was reflected in the upgrading or formation of new negotiating groups and issues during 1981.

The Wisemen's Report

The first input available for the administration as it began to consider its policy toward Japan was the report on U.S.-Japan economic relations issued by the Japan-United States Economic Relations Group—the so-called "Wisemen's Group." This group of eight prominent Japanese and American businessmen and academics was set up following the Carter-Ohira summit in 1979 and it issued its main report in the middle of January 1981, followed by a final supplement in September.

Despite the fact that the group had been formed during the previous administration, the report received strong words of praise from Reagan administration and legislative branch officials for its analysis of the strengths and weaknesses of this important bilateral relationship, as well as its concrete recommendations to help both countries avoid future trade tensions. Several key members of the trade subcommittee of the House Ways and Means Committee urged the incoming administration to make the report "a keystone in its approach to Japan, so that disputes may be reduced and bonds strengthened between our two nations during the next four years." Reaction from the Japan desk at the State Department was also quite positive; the consensus was that as a "negotiated document" it nevertheless provided a fair assessment of the bilateral relationship, and a more candid one than was expected.

A pervading theme in the report concerned the necessity of building a more comprehensive partnership and improving mutual understanding. Mistaken or outdated percep-

The Reagan administration's economic policy on Japan was initially preoccupied with the automobile problem, as

tions of each country in the other—such as "Japan, Inc."—the report said should be discarded, and neither country should use the other as a scapegoat for internal political or economic problems or disputes. In order to readjust their international roles and share the responsibility for managing the international economic and political order, the report recommended more intensive contacts between U.S. and Japanese business leaders and increased joint policy research activities and exchange programs for legislators and business and labor leaders. "We believe that the escalation of differences into major disputes can often be prevented by timely consultations among senior experts from both countries," it concluded.

Concerning the controversial subject of Japan's defense spending, the group asserted that it was "far more fruitful to consider the adequacy of Japan's self-defense efforts in relation to its security requirements and overall resources rather than simply in relation to an arbitrary figure derived from GNP." However, it did stress that since Japan would inevitably bear a smaller proportion of the military burden of international security, it should make a proportionately larger contribution in political and economic fields—particularly by increasing economic assistance to developing countries.

While periodic friction in the textile, automobile and steel industries was seen as inevitable, the group warned that cooperation or conflict in the field of energy could put the bilateral relationship to the ultimate test. Arguing that neither government was fully prepared to deal with a major interruption in petroleum supplies, it recommended that the United States and Japan immediately undertake a "crisis management study" to formulate contingency plans. Increased investment by both countries in coal development in the United States, including mining, transportation facilities, and coal gasification and liquefaction, was also advised.

In the area of trade, the report made the important observation that the trade imbalance between the two countries reflected structural differences, and would exist even if there were perfect access to the Japanese market for American products. Energy costs, the interaction of domestic demand and world business cycles, and differences in domestic savings and investment rates were cited as affecting the two countries' global trade and current account balances as well as bilateral merchandise trade. Since trade protection for autos and other beleaguered American industries, it was argued, would only aggravate inflation and delay adjustment to international competition, the group insisted that a marked improvement in U.S. productivity was essential. It recommended that the President convene a National Productivity Conference, and

that the President and Congress reduce the regulatory burden and develop a long-term program of supply-side incentives.

Japan, for its part, was advised to liberalize its highly protected agricultural sector by eliminating all quantitative restrictions on food imports. The report recommended that the Prime Minister establish a central office for trade and investment issues and suggested that economic decision-making be made more visible.

Regarding specific industries, the report recommended that the steel trigger price mechanism be utilized for no longer than five years and that "generous" trade adjustment assistance be allocated to communities and workers as the steel industry adapted. As noted above, the group argued against the imposition of import quotas on Japanese autos and maintained that although continued progress on auto parts, tariffs, and standards and testing in Japan was still critical, U.S. manufacturers alone were responsible for expanding their sales in Japan. Finally, the group supported the position of U.S. semiconductor and other high technology manufacturers that these companies should be allowed to participate in Japanese research and procurement on the basis of national treatment.

The Wisemen's report was enthusiastically received on Capitol Hill. For example, Congressmen Sam Gibbons (D, Fla.), James R. Jones (D, Okla.), and Bill Frenzel (R, Minn.), prominent members of the House Ways and Means trade subcommittee, lauded the report for its "many constructive ideas for changes in both the United States and Japan which will help prevent trade disputes and other controversies over the long run." They also urged the Congress "to review this report through hearings and, where appropriate, legislation."

A supplement to this report was issued in late summer that both reiterated some of the earlier conclusions and reviewed the comments received from both governments. With this report, the group went out of existence because the initial strong positive interest in both governments was not sustained throughout 1981.

Upgrading the TFC

The governments of the United States and Japan agreed to set up a subcommittee-level panel to discuss and resolve the market-access problems American companies encounter in Japan. Creation of the new executive council, described as an upgraded Joint U.S.-Japan Trade Facilitation Committee (TFC), was announced on July 24 by Secretary of Commerce Malcolm Baldrige after a meeting with Japan's Minister of International Trade and Industry Rokusuke Tanaka. The council, which held its first meeting in Washington in

September, was co-chaired by Lionel H. Olmer, Under Secretary of Commerce for International Trade Administration and Shohei Kurihara, Vice Minister for International Affairs in the Ministry of International Trade and Industry.

The Trade Facilitation Committee was formed in September 1977 to identify and eliminate obstacles to U.S. exports to Japan that result from Japanese trade practices and procedures. Through June 30, 1981, the Department of Commerce's TFC staff had received 94 complaints about Japanese market-access problems from U.S. firms and industry groups. Sixty-one of these complaints were forwarded to the U.S. Embassy in Tokyo as possible TFC cases. After staff investigation, the Embassy sent 22 cases to the Japanese side of the TFC for action. Of these cases, 19 were favorably resolved, two were still under consideration and one was withdrawn.

The successfully resolved TFC cases covered such diverse products as potato chips, airport lights, medical equipment, flashlight batteries, shock absorbers, manufactured tobacco, fish vaccine, and hang gliders, as well as computer-timesharing services. The Japanese government trade practices and procedures involved in these investigations included product-approval problems (seven cases), administrative guidance (three cases), tariff classification and trade restrictions (two cases each). Buy-national policies, inspection procedures, safety standards, testing procedures, and the Japanese commodity-tax system each accounted for one case.

In addition to handling product-specific trade problems, the TFC served as a forum for the discussion of Japanese standards and their application to foreign-made products, which resulted in a joint statement of principles and the changed product-approval process for electrical appliances, telecommunications equipment, processed foods, and cosmetics imported into Japan. The TFC also monitored the results of the Japanese automotive-parts buying mission that visited the United States in September 1980.

The Commerce Department viewed the high-level executive council as a means of broadening the scope of the TFC's work, extending it beyond relatively narrow product-specific trade problems to industrial-policy issues, including obstacles to U.S. investment in Japan. At a September 16 session, the council agreed to consider in future meetings a broad range of specific bilateral trade issues, review both countries' industrial structure and technology programs, and exchange information on productivity, quality control and labor-management techniques, in addition to pursuing the TFC's basic objective of facilitating U.S. exports of manufactured goods to Japan. The first of these meetings was slated for the spring of 1982 in Tokyo.

Market Access Shopping List

In early November, U.S. officials began drafting a list of trade barriers in Japan as part of their effort to put pressure on Japan to further open up its markets. It was becoming clearer that the Reagan administration's economic policy on Japan was beginning more and more to revolve around the question of access to Japanese markets. Prepared for discussion at the December subcommittee-level meetings on bilateral trade issues, American embassy officials handed the list to the Foreign Ministry just before a November 17 Cabinet meeting on Japan's trade imbalance. The request articulated both tariff and nontariff barriers. In the former category, American officials requested that tariffs be eliminated on 29 items including computers, plywood, leather, auto parts and agricultural products. The nontariff list referred to streamlining customs procedures, easing emission-control standards and other regulations on automobiles, and establishing testing standards for plywood.

High on the tariff-elimination list were computers and computer parts. The 1981 tariff on imported computers was 10.5 percent (compared with 5.5 percent in the United States), and on peripheral equipment was 17.5 percent (again, the United States imposed a 5.5-percent tariff). In the Tokyo Round negotiations, the Japanese government agreed to reduce tariffs on computers to 4.9 percent and on peripheral equipment to 6 percent by 1987, but the United States wanted to speed up that schedule.

Of equal concern was the elimination of tariffs on agricultural products, including beef, pork, citrus fruits and juices, poultry and peanuts. Although Agriculture Secretary Block discussed a possible reassessment of quotas on beef, oranges and citrus juice when he visited Tokyo in the fall, the new request went a step further, suggesting wholesale tariff elimination on these items.

Rejecting the assumption that the United States was itself free of trade restrictions, the Japanese government responded by asking for the lifting of so-called nontariff barriers impairing business activities of Japanese companies in the United States. They included in their list: antidumping investigation practices; government administration of laws and regulations related to trade; "Ship American" and "Buy American" policies; the obligation to declare the country of origin of an imported product; the manner of tariff classification; the unitary tax system imposed by the State of California; restrictions on visas to Japanese company personnel; and the application of regulation 385 of the Internal Revenue Code.

The list presented by the United States was also part of the groundwork laid in the United States in late 1981 in anticipation of an

extension of presidential authority on tariff negotiations, due to expire in January 1982, with Congress drafting a two-year extension of the legislation. At the same time, the International Trade Commission reportedly began a study on the impact of tariff reductions on American industries in anticipation of policies on GATT reciprocal tariff concessions.

New Bilateral Subcabinet Group

American and Japanese subcabinet-level officials met in Washington on September 14 and 15 to discuss a wide range of international and domestic economic topics. One major tangible result of the consultations was the formation of a special subcommittee on trade, chaired on the American side by Deputy USTR Macdonald and on the Japanese side by Hiromu Fukada, Director-General of the Ministry of Foreign Affairs' Economic Bureau. With its wide representation of U.S. and Japanese government agencies, the subcommittee, which held its first working session during the Washington consultations, was expected to help resolve U.S. trade problems with Japan falling outside the purview of the joint U.S.-Japan Trade Facilitation Committee (TFC), the bilateral trade panel staffed by the Department of Commerce and the Ministry of International Trade and Industry that was discussed above.

The subcabinet group held its first major meeting in Tokyo on December 9 and 10 based on the lists of problem areas provided in November. The talks yielded little in the way of formal commitments from Japan to further liberalize market access to U.S. manufactured and agricultural goods, but they were regarded by U.S. negotiator Macdonald as a constructive beginning to solving a problem that, in view of high U.S. unemployment and burgeoning bilateral trade deficits, risked becoming highly politicized. The Ministry of Foreign Affairs reported after the meeting that the U.S. delegation welcomed Prime Minister Zenko Suzuki's initiatives on opening up the Japanese market and anticipated that steps would be taken to increase imports from the United States.

At the product-specific level, the discussions focused on Japanese imports of agricultural products, including beef and citrus; elimination of nontariff barriers, such as troublesome customs and testing procedures, was discussed as well. The Americans pressed Japan to advance the quota-liberalization negotiations between the United States and Japan, then scheduled to be resumed in the spring of 1983, but the Ministry of Agriculture, Forestry and Fisheries was reluctant to see the timing altered and no decision on timing was made until 1982. Some progress was reported in simplifying import-inspection procedures on aluminum baseball bats,

tennis balls, papaya and sake. The Japanese government said it hoped to streamline inspection procedures in general in an announcement to be made at the end of January 1982. The Japanese government added that it considered the second trade group meeting very satisfactory because the U.S. presented specific issues which provided some scope for action.

The formation of the subcabinet-level group and the issues it was to pursue demonstrate again that the basic theme developed in 1981 by the Reagan administration was that Japan should focus on easing access to its market. Temporary measures to reduce the trade surplus or further protectionism in the United States were not part of the administration's approach.

Congressional Views of the Overall Bilateral Economic Relationship

That a widespread dissatisfaction with the over-all bilateral economic relationship was emerging. As in the administration's case, this dissatisfaction found an outlet in the market access issue.

While most Congressional action, especially early in 1981, centered around the auto issue, it was apparent by the fall

Action on the Wisemen's Report

The one exception to the harsher tone of dissatisfaction came in response to the report of the Japan-U.S. Economic Relations Group discussed in the previous section. Just prior to the August recess, H.R. 4346 was introduced to implement some of the recommendations made by the Wisemen's Group. Termed a "discussion bill," Rep. James Jones (D, Okla.) acknowledged that the sponsors did not expect enactment of the bill in its entirety, especially in view of the requisite multi-committee referrals. However, they were hopeful that some portions of it would become law or, if nothing else, "lead to serious discussions about ways in which the United States and Japan can cooperate on trade matters to the benefit of both countries." The bill provided for oil swap rights with Japan; studies of energy conservation in major Japanese industries in comparison to those in the United States; encouragement of a bilateral coal purchase, supply and investment agreement; a GAO study of Japanese productivity gains which might be "exportable" to the United States; encouragement of cabinet-level consultations between the United States and Japan; establishment of a Japan-United States Interparliamentary Union, similar to the unions the United States has with Europe and

Canada; emphasis on country and language studies programs for civil servants; and encouragement of private-sector agricultural purchase and supply agreements with Japan to expedite the removal of the remaining quotas on U.S. agricultural goods. The three committees to which this bill was referred were the House Ways and Means, Foreign Affairs, and Post Office and Civil Service.

Debate on Access to Japanese Markets

Joint Economic Committee The first major hearing on market access in 1981 was held in July by the Joint Economic Committee, which received testimony from both administration and industry representatives on Japan's remaining barriers to imports of U.S.-produced agricultural and manufactured goods. While the witnesses uniformly agreed that totally unrestricted trade between the two countries would be of enormous benefit to both economies, neither USTR Brock nor U.S. Secretary of Agriculture John Block offered any specifics on achieving "equivalent openness" in the trade relationship.

Terming trade between the United States and Japan the linchpin of the bilateral relationship, Ambassador Brock assured the committee that improved market access in Japan for U.S. goods and services was among his highest priorities. He cautioned acting chairman Fred Richmond (D, N.Y.), however, that it would be hazardous for the United States to dwell on its deficit with Japan when it experiences a huge surplus with the European Community, and further emphasized the themes of the administration's recently released trade policy white paper (see Part V). Acknowledging the continued presence of "endless informal barriers... imbedded in Japan's society," the ambassador also pointed out that his office was working on an international code to deal with the unfair trading practices.

Turning to specific problem areas, both Ambassador Brock and Secretary Block concurred that Japan had the potential to become a much larger importer of U.S. agricultural products. Zeroing in on the contentious citrus and beef quotas, Ambassador Brock echoed Rep. Richmond's oft-stated opinion that the liberalization of Japan's restrictions on imported beef would result in lower prices and increased demand to the benefit of Japan's producers and consumers alike. However, he conceded that the United States was locked into the existing quota levels until the end of March 1984, although it was trying to renegotiate these limitations. Secretary Block also maintained that one of the administration's goals was to increase exports of processed or semi-processed foodstuffs. Ambassador Brock pointed out that the government

was working with U.S. processors to improve their ability to meet Japanese specifications, quality standards and product characteristics. A large part of the problem with Japanese products standards, he explained, lay in the fact that U.S. industry could not register complaints at Diet hearings the way Japanese industry could at congressional hearings.

Regarding Japanese tariffs on U.S. high-technology manufactures, Ambassador Brock cited the success earlier in 1981 in reducing semiconductor tariffs in both countries to 4.2 percent. The success of the NTT procurement seminars held in Tokyo in the late spring, he added, attested to the fact that the Japanese government "has been very forthcoming in its implementation of the NTT government procurement code."

Representatives from the semiconductor, auto parts and telecommunications industries elaborated on the particular problems their companies faced in Japan at these hearings. George Scalise of the Semiconductor Industry Association felt that the tariff reduction was a step in the right direction, but that improvements in the nontariff areas and greater U.S. investment in Japan were just as critical. George M. Glaster of the Automotive Products Export Council pointed out that certain Japanese auto makers at one point refused his offer to send them one year of free deliveries of certain products for their inspection.

Of the agricultural representatives, Arnold Mayer of the United Food and Commerce Workers International Union was highly critical of Japan and Rep. Andy Ireland (D, Fla.), representing a district in which 85 percent of all U.S. orange juice concentrate is made, charged that "it is time our government started insisting, not 'negotiating' that Japan live up to its legal obligations."

Senate Finance Committee By the end of the year, Congress again turned to the market access issue at Senate Finance Subcommittee hearings in December. At these hearings, Senate Finance Subcommittee chairman John C. Danforth (R, Mo.), capped the year with a follow-up examination of developments in the beleaguered U.S. auto industry, during which he warned that auto import legislation could be forthcoming again should the administration fail to negotiate greater access for U.S. goods. "[The Congress] won't watch an industry sink over the horizon because of [our government's] quixotic unilateral pursuit of the free trade myth," he told Deputy United States Trade Representative David Macdonald. To the surprise of some committee members, administration witnesses responded in an equally forthright manner. Commerce Under Secretary Lionel Olmer termed the U.S.-Japan relationship our "single most important bilateral relationship

... which is headed for trouble since economic relations are not conducted on a fully reciprocal basis." He called for timely and effective changes in Japan's infant industry and agricultural support policies. Ambassador Macdonald used even stronger language, charging that the United States must attack Japan's anti-import attitude. Although he was not specific, he went on to say that the administration might even support protectionist legislation if the Japanese continue to stall.

One factor that rekindled congressional interest in protectionist legislation by the end of the year was the apparent failure of the auto-parts buying mission from Japan in September 1980. To underscore their concern for the market access problem—and to give Ambassador Macdonald some additional negotiating leverage—Finance Committee members unanimously passed a "sense of the Committee" resolution on December 2 calling on the United States Trade Representative to "take such actions as are necessary and appropriate to bring the denial of equivalent market access specifically and directly to the attention of the Government of Japan... [and] achieve expeditiously reciprocal trading opportunities for all American producers in the Japanese market..."

At the end of 1981, Congress was planning to move ahead on this issue with several major hearings planned for early in 1982. The concept of bilateral trade reciprocity was set to become a major issue.

House Ways and Means Report

At the end of December, the Subcommittee on Trade of the House Ways and Means Committee issued its third report on U.S.-Japan economic relations. As with the previous two reports (January 1979 and September 1980), it was a combination of firm statements calling upon Japan to further ease market access for products from the United States and a call to the United States to face the Japanese economic challenge with more positive programs to increase productivity and aid economic growth. The report was the result of a trade mission to the Far East by a number of subcommittee members headed by Rep. Sam Gibbons (D, Fla.).

While acknowledging the considerable progress made in the past few years to reduce tariff and nontariff trade barriers, the report characterized Japan as a country whose economy resisted imports and continued to exhibit a reluctance to further open its markets. Arguing that perceptions are as important as reality, the report emphasized strongly that Japan must develop a reputation as a fair trader in order to keep the world trading system open and equitable. In an appendix giving additional views, Rep. James Jones (D,

Okla.) and Rep. Bill Frenzel (D, Minn.) put this point succinctly: "It is especially frustrating when Japan—a country that realizes a tremendous advantage from free export markets—seems to have little interest in maintaining an open world trading community." The subcommittee members found their views about Japan reinforced in discussions with trade officials and businessmen in Hong Kong, Singapore, Malaysia and Thailand.

Reviewing bilateral economic issues, the report credited the Japanese with significant reductions of trade barriers in the recent past. It commented that barriers in manufactured goods were not as high as many in the United States believed, but it discussed and criticized in some detail the barriers that did exist, particularly in the agricultural area. The report emphasized that these restrictions on agricultural products were a "lightning rod for criticism of Japan as a protectionist and unfair trading partner." On the other hand, the subcommittee members were impressed with the cooperative attitude at Nippon Telegraph and Telephone Public Corp.—the center of controversy during the 1979-80 government procurement negotiations.

In its evaluation of the Japanese challenge, the report argued that if the United States was to maintain its lead in a number of industries, more positive action was needed. The restrictions on Japanese auto exports to the United States established the previous spring, for instance, were acknowledged to be a poor long-run solution to auto industry problems. For these purposes, the report recommended hearings on U.S. tax policies, government regulations and antitrust policy, as well as education about Japan for civil servants and legislation to establish export trading companies.

Despite emphasis on what the United States must do to get its own house in order, the critical tenor of this report stemmed from the complacency the subcommittee members found in Japan regarding the necessity of further changes in Japanese trade barriers. The message was clear: there was widespread dissatisfaction with the pace at which Japan was opening its markets to imports and a conviction that Japan had to change these practices.

Defense Moves to Center Stage

The Reagan administration's commitment to a strong defense posture carried over into its relations with Japan. Japan's less than one percent of GNP level of defense spending continued to attract attention in both Congress and the executive branch along with questions about Japan's defense role in the Asian Pacific and transfers of weapons-related technology.

The Reagan administration's commitment to a strong defense posture carried over into its relations with Japan.

Discussion of Japan's Defense Role

Ito-Haig Japan's defense role was first discussed in a high-level meeting between Japanese Foreign Minister Masayoshi Ito and Secretary of State Alexander Haig and Secretary of Defense Caspar Weinberger in Washington in late March. The talks amounted to another reiteration of the United States' oft-stated request for *qualitative* improvements in Japan's Self Defense Force (SDF), so Japan could more effectively engage in defensive missions (e.g., patrol of critical sealanes and general surveillance) within its territorial waters. As one U.S. official remarked, asking Japan to enhance its anti-aircraft and anti-submarine capabilities did not breach constitutional limitations since these weapons systems would be used strictly for defensive purposes. More importantly, however, American officials had long pushed for improvements along these lines, arguing that they would give the United States greater flexibility for offensive deployments in the region. The talks merely restated the United States' long-held view that Japan should continue in its efforts to upgrade its self-defense capabilities.

While time constraints prevented a thorough examination of the details of Japan's defense plan, there was some discussion of the Japanese government's recent decision to double its economic assistance to developing countries. Foreign Minister Ito expressed Japan's desire to "act as a bridge between North and South." While U.S. officials indicated support of Japan's initiatives in this area, it was not clear whether both countries shared the same view as to how this economic assistance would be targeted to countries of strategic importance to both Japan and the United States.

Reagan-Suzuki Summit The next important meeting on defense came during Prime Minister Zenko Suzuki's discussions with President Reagan on May 7 and 8 in Washington. In the joint communique released at the end of the visit, the Prime Minister pledged that "Japan, on its own initiative and in accordance with its Constitution and basic defense policy, will seek to make even greater efforts for improving its defense capabilities in Japanese territories and in its surrounding sea and air space, and for further alleviating the financial burden of U.S. forces in Japan." Elaborating on this point in other Washington appearances, Mr. Suzuki indicated that Japan would consider patrolling the seas in a several-hundred-mile radius around the country and protecting access to sealanes as far as 1,000 miles from its shores. He also underscored the need to develop greater Japanese public support for stepped-up

defense spending before boosting outlays substantially.

Security Subcommittee The United States officials continued to express disappointment on the defense issue throughout May and June because they felt that existing Japanese plans did not accommodate improvements in Japanese air and naval capabilities that they deemed essential for effective defense of the home islands and surrounding sealanes.

U.S. and Japanese foreign affairs officials next met at their annual working level security subcommittee meeting in Hawaii during June 10 and 12. While U.S. officials had been careful to withhold the specifics of the meeting, the Japanese press reported that the United States proposed that Japan procure some 70 destroyers, rather than the 60 stipulated in the 1976 long-term defense buildup plan; 25 submarines rather than 16; and 520 combat aircraft (including interceptor fighters, ground-support attackers and tactical transport planes) rather than 430. Moreover, the F-15 fighter bombers and 45 P-3C antisubmarine patrol planes should be completed by 1982. The magnitude of these requests evidently "stunned" the Japanese government.

Omura-Weinberger The next major meeting took place in Washington on June 29 between Japan Defense Agency (JDA) Director Joji Omura and U.S. Defense Secretary Caspar Weinberger, and it left the two sides on parallel tracks regarding the improvement of Japan's defense capabilities and its role in the common defense of Asia. Emphasizing again the "dramatic increase in the Russian threat," Secretary Weinberger urged the Japanese to increase rapidly their military strength in order to respond to the extensive changes in the global situation since Japan drew up its long-term defense outline in 1976. Mr. Omura was adamant, however, that while Japan would improve its self-defense forces within constitutional and budgetary constraints, it would not accept the increase proposed by the United States.

While not discounting Mr. Weinberger's assessment of the Soviet military buildup, Mr. Omura reiterated the Japanese government's oft-stated argument that its defense plans were constrained by a number of factors such as fiscal austerity (the government effort to reduce deficit financing detailed in Part IV); the "peace" constitution restricting Japan to strictly self-defense operations; domestic public opinion; and the need to balance (and justify) defense spending against other major domestic economic needs such as social welfare spending. He further argued that his government's first priority would be to reach the goals established in the 1976 plan, since there was still a gap between the targeted 1984 goal and the 1981 level. In short, the Japanese government expressed ab-

solutely no intention of expediting this plan.

Defense White Paper The release of the Japan Defense Agency's annual white paper after its approval by the Cabinet in August helped to clarify the Japanese position on what its defense role should be and its perception of the world military situation. The document closely followed 1980's report in its emphasis on the growing Soviet threat in the Far East and the concomitant diminution of U.S. military power in the region. Providing what informed sources regarded as one of the more candid reviews of the U.S.-Soviet balance in the Asian Pacific, the report maintained that it was imperative for Japan, as a member of the free world, to improve and augment its defense capabilities. As with the 1980 white paper, however, the report took a rather soft stand on the issue of defense spending as a percent of GNP. While acknowledging that changed international circumstances should be recognized in budgeting for defense, it nevertheless concluded that the domestic economic situation must also be considered. In sum, while the white paper offered what was probably the starkest assessment so far of the Soviet military buildup, it strayed very little from the official line presented by former Foreign Minister Ito and Prime Minister Suzuki in their visits to Washington earlier in the year—that Japan could not and should not be rushed in its defense planning.

The report was divided into three parts: (1) the world military situation; (2) Japan's defense policy; and (3) current problems concerning Japan's defense. The first part, in particular, focused attention on the unrest in the Middle East—the region upon which Japan remained heavily dependent for energy resources—and the potentially destabilizing effect that developments there could have on the Japanese economic system. In this regard, the necessity of strategic U.S. developments in the Indian Ocean was examined as was the Reagan administration's defense buildup and its request for an "appropriate" effort from the Western allies in meeting the Soviet threat. In another unusual statement, the white paper maintained that the Soviet military buildup on the Northern Islands (now at an army division level) could be interpreted as signaling the end to detente.

One unprecedented aspect of the white paper, however, was its call for greater patriotism from the Japanese people. Specifically, it said that "to protect one's own country with one's own hand is the duty of every citizen. . . true patriotism is not only loving peace and loving one's country, but also includes the enthusiasm of joining together to protect the country in the event of a national emergency." It stressed that "patriotism" should be an important aspect of the educational process, and included an opinion poll to

verify that public concern about the defense of the country was growing. U.S. government sources viewed the white paper as part of a continuing campaign by Japan's Defense Agency to educate the public on defense matters, with each year's report advancing a slightly more hardline assessment.

Shimoda Conference American reaction to the white paper and its continuing concern over the issue came out at the fifth Shimoda Conference, a forum on U.S.-Japan relations, held in early September. A clear difference of views was expressed over the military threat posed by the Soviet Union and the security issue. Most American participants urged Japan to bear more of the defense responsibility in view of the Soviet military buildup. The security of the Western alliance was endangered, they argued, unless the United States could counter the threat by increasing its defense capability as well as that of its allies. The Japanese side, for its part, maintained that while the Soviet Union's military strength had been expanding, there were other ways to negotiate with the Russians. Although many Americans remained opposed to a militarily strong Japan, there was a current of dissatisfaction that Japan was not sharing the defense effort. On the other hand, the Japanese criticized the inconsistencies of American policy and asserted that the call for large-scale military expenditures might be linked to American domestic economic problems such as inflation that ultimately might weaken the Western alliance's strength. This lack of clear agreement on Japan's future defense role remained for the rest of the year.

Congressional Debate and Proposals

Congressional debate on the defense issue began early in 1981 and steadily accelerated throughout the year. While it was primarily concerned with the level of Japan's defense spending, it also touched on other related issues.

In March hearings before the House Foreign Affairs Asian and Pacific Subcommittee, congressional involvement in the defense issue was expressed through increasing concern over Japan's defense spending level. Deputy Assistant Secretary of State Michael Armacost argued at the hearing that Japan's comprehensive security policy was moving in the right direction. His remarks came in response to questions by subcommittee member Tom Lantos (D, Calif.) concerning Japan's role in providing aid and assistance to less-developed nations in Asia. "If State does not move aggressively [in pressing Japan to augment substantially its defense expenditures], then Congress will move on its own as we're doing on the auto issue," Rep. Lantos

charged. Japan's tremendous economic strength warrants a much higher appropriation for defense spending as a percentage of GNP, he continued. "In the defense area, Japan sticks out like a sore thumb among the industrialized nations of the world." Mr. Armacost retorted that arguing about expenditures with Japan had, in the past, proved relatively unsuccessful, because it involved foreign interference in an internal matter—the budget.

Fueled by worsening bilateral trade deficits, the atmosphere in the U.S. Congress became increasingly assertive in late 1981 as had been foreshadowed earlier in the year by Rep. Lantos' remarks. It was widely felt that something significant had to be done to rectify Japan's "free ride" in defense. During the fall, no less than five bills were introduced that addressed the U.S.-Japan security relationship. While the legislation varied in tone—from a hard-line proposal calling for a renegotiation of the postwar bilateral treaty (introduced by Senator Jesse Helms, R, N.C.), to one that merely urged the Japanese government to increase its defense expenditures to at least 1 percent of GNP (introduced by Rep. Clement Zablocki, D, Wis.)—it was significant that the strong rhetoric concerning Japan's defense spending emerged at this time in the form of concrete proposals.

Following is a list of the *non-binding* resolutions (without the force of law) introduced:

□ The Helms Proposal—Introduced by Senator Jesse Helms (R, N.C.) as an amendment to S. 1196, the International Security and Development Cooperation Act of 1981, this proposal advocated renegotiation of the U.S.-Japan Mutual Security Treaty to "establish a full partnership and closer cooperation in sharing the burden of the common defense." The aim of the law would be to obtain formal Japanese concurrence to provide the manpower and hardware to carry out specific functions. Senator Helms agreed to withdraw this amendment on the condition that hearings on the U.S.-Japan security relationship be held early in 1982.

□ The Zablocki Proposal—Introduced by House Foreign Affairs chairman Clement Zablocki (D, Wis.), H.Con.Res. 213 urged Japan to increase its defense expenditures to the level of at least 1 percent of GNP.

□ The Neal Proposal—Introduced by Rep. Stephen Neal (D, N.C.), H.Con.Res. 210 called on Japan to pay an annual security tax equal to 2 percent of Japan's GNP "to more equitably compensate the United States for expenditures relating to carrying out the provisions of the U.S.-Japan Mutual Security Treaty."

□ The Findley Proposal—Introduced by Rep. Paul Findley (R, Ill.), H.Con.Res. 172

addressed the more general problem of sealane security and called on Japan to increase its capacity to defend vital sealanes by increasing its capabilities for naval mining, air defense, and antisubmarine warfare.

□ The Levin Proposal—Introduced by Senator Carl Levin (D, Mich.), S.Con.Res. 46 was essentially the Senate companion to the Zablocki proposal.

The Japanese government was not at all receptive to these initiatives, however, implying that the U.S. Congress acted rather high-handedly in addressing another country's domestic concern. Ambassador Yoshio Okawara stated that he found the motivation behind such a mood on Capitol Hill hard to understand, especially since Japan's FY 1981 budget—for the first time—included an increase for defense that exceeded that allowed for social welfare programs.

Especially disturbing to the Japanese were congressional efforts to link trade imbalances with the defense spending issue. In his floor speech, Senator Helms cited Japan's merchandise trade surplus with the United States and charged that the Japanese "continue to have expanded access to the American market and continued shifting of the defense burden to the American taxpayer." Even Japanese politicians who supported increased defense spending complained that U.S. congressional moves were counterproductive because it converted the issue to one of "U.S. pressure" and consequently diverted attention from the merits of the defense problem. At yearend, it was clear that this issue would be carried over into 1982 during the 97th Congress' second session at a high level of tension.

Dispute over Summit Communique

The joint communique released after the Suzuki-Reagan talks on May 7 and 8 received a mixed reaction in Tokyo. Opposition parties expressed concern that Japan was being drawn further into a defense commitment reflecting Japan's continued sensitivity about the defense issue. The concern arose because in the joint communique, the word "alliance," rather than "partners," was used for the first time, which the Japanese press took as an indication that the bilateral relationship had entered a new period characterized by a stronger defense posture. Later, though, Prime Minister Suzuki stressed that the word "alliance" had no military significance but only clarified Japan's intention to protect its own territory and national interest. He denied that Japan was under pressure from the United States to conform to the statement.

As the controversy grew, Prime Minister Suzuki repeatedly assured the Diet that the term "alliance" did not have defense impli-

cations. But the opposition parties and the press disputed the statement, suggesting that Japan was moving toward a stronger degree of military cooperation with the United States and would be forced to step up its defense capability in response to the Reagan administration's foreign policy.

A difference of opinion between the Prime Minister and Foreign Minister Masayoshi Ito surfaced when it was reported that Foreign Minister Ito and Vice Minister Masuo Takashima interpreted the word "alliance" as including defense cooperation. While the opposition parties attacked the Suzuki government for agreeing to any military alliance with the United States, the press was sharply critical of Mr. Suzuki's apparent lack of leadership on the issue which had resulted in the publicized difference of opinion with Foreign Minister Ito. As a result, Foreign Minister Masayoshi Ito resigned from the Cabinet on May 16. Minister of Health Sunao Sonoda, who served as foreign minister from 1977 to 1979, was appointed to the post. The State Department in Washington noted that the resignation of Japan's foreign minister was a domestic incident which would not impact on the U.S.-Japan relationship.

Even though the public has accepted the reality of the U.S.-Japan security pact, political observers pointed out that the term "alliance" was still repugnant to the Japanese in 1981, who related it to the war-time alliance with Germany and Italy. The Prime Minister reportedly stressed Japan's sensitivity to military matters to President Reagan. Nevertheless, the Prime Minister's criticism of the Foreign Ministry made ministry officials the scapegoats in the political upheaval. The ruling Liberal Democratic Party leaders and cabinet ministers reiterated their long-held criticism of the bureaucracy, lamenting that legislators have so little say in the final draft.

Planning for the FY 1982 Defense Budget

Highly political considerations produced by the end of the year a proposed 7.75-percent increase in Japan's FY 1982 (April 1, 1982-March 31, 1983) defense budget. The proposed amount was about ¥2.58 trillion (\$11.6 billion at average 1981 exchange rates), or an estimated 0.933 percent of Japan's GNP. The decision was controversial. Originally, the Finance Ministry, which was determined to eliminate the government deficit by fiscal 1984, proposed a 6.5-percent increase. Even when it later revised that to a 7.5-percent ceiling, however, fierce lobbying by the Defense Agency and Liberal Democratic Party members active in defense and foreign policy areas softened the resistance of Finance officials. As a result, the increase in

defense rose to 7.71 percent and finally to 7.75 percent. Ultimately, Prime Minister Suzuki yielded to pressure from LDP members, and negotiations between Finance Minister Watanabe and Defense Director-General Ito resulted in the restoration of funds for seven P3C anti-submarine surveillance planes and twenty-three F15 fighters which had earlier been scrapped. Japan's cost-sharing of U.S. military bases was also increased by 18.5 percent to ¥50.6 billion (\$231 million).

It was obvious that mounting trade conflicts with the United States and demands that Japan increase its defense presence influenced the LDP members. The Prime Minister was unable to stem the tide, particularly since his political future depended on the support of a number of factions in addition to his own. There was strong criticism of the government's making an exception of the defense budget, not only from the Finance Ministry but also from the opposition and the press, who were apprehensive about forsaking the ceiling lest Japan enter a period of escalating defense costs. This criticism was reiterated abroad, particularly in the Soviet Union, which denounced the figure as an indication that Japan had begun to walk the road of militarism.

In the past, the social welfare budget had been considered a top priority, and Japan's defense expenditures were compared with it as an indication of the country's direction. Accordingly, the press concentrated on the fact that the increase in social welfare was only 2.8 percent, implying that the government was willing to sacrifice the living standards of the poor, the old and the handicapped in response to external pressures.

The Reagan administration praised the Suzuki Cabinet's decision on fiscal 1982 defense spending. Coming during a period of severe budgetary austerity, Washington acknowledged that strong political leadership was required to realize such an increase when social welfare expenditures were held down. This "demonstrates a commendable awareness of the need and a most appropriate change of priorities," a Defense Department release stated. Administration sources were careful to add, however, that the 7.75-percent figure constituted a sound beginning of greater cooperation in defense, under the terms of the May 1981 Reagan-Suzuki communique, implying that greater increases would be expected in the future.

Reactions from Capitol Hill were somewhat less than enthusiastic. A chief aide to House Foreign Affairs chairman Clement Zablocki (D, Wis.), author of the resolution calling on Japan to spend at least 1 percent of GNP on defense, said that while the increase was better than expected, it remained somewhat less than was hoped for. Senator Carl

Levin (D, Mich.), author of the Senate companion to the Zablocki bill, was more vitriolic in his assessment, calling the 7.75-percent figure "totally inadequate" to meet Japan's defense needs, particularly the accelerated completion of its defense build-up plan.

Defense-Related Technology Transfer

A side issue related to the discussion of Japan's defense role arose in October when Deputy Secretary of Defense Frank G. Carlucci, in Tokyo to brief Japanese leaders on the U.S. defense budget, made statements concerning the proposed transfer of Japanese military-related technology to the United States and expressed high expectations on the outcome of the bilateral Systems and Technology Forum later in 1981. While U.S. officials had yet to name specific items, they talked in very general terms about the possibility of transferring Japanese advanced electronics, laser optics and various other state-of-the-art technologies. It was hoped that this type of exchange would appease U.S. critics who were charging that Japan was not assuming its fair share of the defense burden.

The Japanese government responded to the concerns expressed by the Japanese public and certain parts of the government in early November, releasing a policy statement explaining that Japan could export weapons or weapons-related technology to the United States according to the Mutual Defense Assistance Agreement embodied in the U.S.-Japan Mutual Security Treaty. The article went on to say that the government affirmed that the terms of the treaty transcended Japan's so-called "Three Principles for Weapons Exports" (no exports to (1) Communist countries; (2) countries under United Nations sanction; or (3) countries involved or likely to become involved in a conflict), and that weapons exports to the United States "to maintain and develop American defense capabilities" would ultimately contribute to the peace and security of the Far East. Informed sources stressed, however, that while the Japanese government was indeed trying to establish a basis under current law for such an exchange, the proposal was still very much under study.

While any talk concerning the easing of Japan's stringent weapons export ban was guaranteed to spark a vociferous reaction from opposition Diet members, it was no secret that subcommittee officials from both countries had been discussing the prospect of weapons-technology transfers for over a year in the bilateral Systems and Technology Forum. In June, Secretary of Defense Weinberger discussed the subject in his meeting with Japanese Defense Agency Director Omura and the earlier subcommittee meeting in

Hawaii reviewed it as well.

There was also a growing body of opinion within Japan's defense industry that favored a government review of the export ban, maintaining that such an exchange with the United States would increase the industry's productive capacities, reduce high unit costs, and improve profit margins, thus allowing greater investment in research and development. The Japanese government was extremely reticent about easing the ban, however, fearing that the move could further complicate its economic and diplomatic relations.

Sectoral Issues

Although automobiles and defense were for the second year in a row clearly the major bilateral issues, and as such have been dealt with separately in this yearbook, a myriad of smaller issues kept up and added to the continuing tension between the two countries. These cover many disparate industries and problems which are grouped together here under a number of sectors, including transportation, energy, computer-related, and agriculture and fisheries. Developments in color television, industrial fasteners and aluminum are also considered. The most serious of all of these was perhaps civil aviation, where there was no progress and rising anger on both sides. That, and the other problems helped to set the tone of deteriorating relations during the year.

Transportation

Two transportation issues arose during 1981 with continued disagreements over civil aviation creating discord while the creation of the Japan-United States Rail Congress late in the year sounded a more cooperative note for the bilateral relationship.

Civil Aviation After nearly three years at a virtual standstill, the United States and Japan finally began edging in 1981 toward resumption of full-fledged negotiations on revision of the bilateral civil aviation agreement. At the informal aviation talks held in January in Hawaii, the U.S. side proposed what Civil Aeronautics Board (CAB) chairman Marvin Cohen called a "fundamental revision" to the 28-year-old accord that the Japanese had long argued is totally inequitable. At this meeting, the United States proposed a "comprehensive package" that included the following provisions: (1) expansion of Japan's right to fly to four more cities in the United States, three of which would be named in the agreement and one "rover" of Japan's choosing; and (2) Japan's right to pick a major U.S. city from which it could fly "beyond" to whatever foreign destination it chose. As the quid pro quo, however, the United States also proposed: (1) greater pricing flexibility; (2) greater real ac-

cess to Japanese airports for U.S. carriers, subject to the environmental, fuel transport, and other problems; and (3) increased charter flights from the United States to Japan, which were grossly imbalanced in favor of Japan.

Looking at the package, the Japanese side responded that they would have to study it further, since they still held differing opinions on the latter three proposed revisions. Japan Air Lines (JAL), a quasi-government company, had for some time teetered on the brink of serious financial difficulties, and had consistently and adamantly opposed the lowering of air fares, and what it regarded as the "invasion" of U.S. charter flights.

Also discussed were the problems of Pan American and United Airlines. Japan had been opposed to Pan Am using Tokyo as a discharge and pick-up point en route to Peking, arguing that these "beyond rights" to China were never included in the 1952 agreement. Upon recommendations from the Japanese negotiators, however, the Japanese government on January 27 agreed to Pan Am's request. Both sides agreed that United's request to commence trans-Pacific service—a request that the U.S. had argued was completely justified according to the existing agreement, but that Japan had opposed—could best be settled within the context of a completely revised aviation accord.

After an intermission of almost three months, negotiators met again in early April for another round of working level talks on the U.S.-Japan Civil Aviation Agreement. However, due to philosophical discrepancies and some strain from the auto problems that had spilled over into aviation relations, American and Japanese negotiators failed to narrow their differences during this round of civil aviation talks in Washington, and recessed without even agreeing on a later date for resumption of talks.

At the meeting, the Japanese submitted a new package of demands; the Americans agreed to some but found others unacceptable. The two major bones of contention concerned Japanese proposals to implement capacity restrictions for the *entire* bilateral area (which had been in effect for Micronesia only), and to set specific percentage limits on "fifth freedom" traffic (carried by an airline between two points other than its own country). The capacity restrictions would, in effect, require that a jumbo-jet flight be considered equal to two narrow-bodied flights so that the two countries would have to adjust their numbers of flights accordingly to insure an equal amount of passenger capacity. Japanese concerns regarding "fifth freedom" traffic reportedly stemmed from what they regarded as Northwest Airlines' abuse of this right; the Japanese charged that Northwest was filling as much as 90 percent of its flights with local traffic between Japan and points

other than the United States. According to informed sources, the U.S. vehemently rejected both of these proposals as "non-negotiable."

The proposals acceptable to U.S. negotiators provided: (1) Japanese acquiescence in allowing United Airlines to serve Japan; and (2) retraction of Japan's demand for unlimited "beyond rights" in serving all U.S. gateway cities. The Japanese instead asked to fly beyond Anchorage and New York to any third country, but to fly beyond San Francisco, Los Angeles and Honolulu to only five countries stipulated for each gateway.

In the controversial areas of charter flights and fare pricing, the Japanese proposed that American airlines be permitted a total of 300 charter flights per year (the amount operated by JAL in 1980), and that a 10-percent zone of fare flexibility on group discount fares be established, permitting U.S. and Japanese airlines to adjust fares within that range without requiring prior approval from both countries.

The dispute escalated again over the summer when the Japanese government's refusal to approve United's request for landing rights in Japan in July prompted the airline to file an appeal with the U.S. Civil Aeronautics Board (CAB) under the U.S. International Air Transportation Competition Act of 1979, requesting a retaliatory suspension of JAL's operation of the Tokyo-Anchorage-New York route. Both United and the U.S. Department of Transportation argued in their written appeals that United's request to commence trans-Pacific flights was completely justified according to the existing U.S.-Japan civil aviation accord. JAL, rejecting this claim, argued that United's flights would aggravate inequities in aviation relations and should be settled within the context of a completely revised aviation accord. Moreover, Japan's Transportation Ministry all but guaranteed a countermeasure in the event that JAL's New York run were to be suspended.

Quite surprisingly, however, three American airlines also active on the trans-Pacific route—Pan American, Northwest Airlines and Flying Tiger Lines—appeared to come down on the Japanese side of this issue. When the CAB sought opinions on United's appeal, Pan Am, in particular, staunchly opposed the retaliatory measure, contending that in return retaliatory action by the Japanese government would result in serious injury among the existing carriers.

At the same time United was filing its case, efforts were underway to resume the stalled civil aviation negotiations in November. In preparation two informal working-level discussions were held. In August Assistant Secretary of State Robert Hormats discussed the problem with Japanese

officials while attending the Shimoda Conference. Mr. Hormats offered informal suggestions concerning areas in which there was some flexibility and potential for compromise, but it was felt that another meeting would be helpful before the formal negotiations. That was held on October 13, and included Mr. Hormats, Mr. Matsuda, deputy director general of the North American Bureau of the Foreign Ministry, and Mr. Yamada of the Japan Civil Aeronautics Bureau. The following day the Japanese delegation met with acting U.S. Civil Aeronautics Board chairman Elizabeth Bailey.

During the October 13-14 talks, the question of "beyond rights" for Japan was again discussed. Even at this stage of the talks, U.S. negotiators evidently found it hard to believe that JAL needed unlimited beyond rights since it had failed to fully exercise its existing rights to Europe.

Regarding capacity restrictions, however, the United States outrightly rejected the Japanese "prior adjustment formula" to determine in advance the number of carriers operating between the two countries during a given season. JAL pushed for this type of regulation arguing that excessive competition from U.S. airlines would inevitably hurt them financially. Yet U.S. negotiators remained adamant that this formula not only ran counter to the U.S. philosophy, but that it would be impossible for the government to implement. The United States had no legal mechanism for dividing up a predetermined number of flights between competing airlines.

At the formal round of negotiations in late November, U.S. and Japanese negotiators were able to better clarify their positions, but major problems still impaired a final agreement. Looking hard at the mid-December deadline, after which the U.S. Civil Aeronautics Board (CAB) said it would take up the United Airlines suit, both sides were anxious to meet once again to resolve differences and avert a retaliation/counter-retaliation scenario. There appeared to be more flexibility on the fare issue; the Japanese stood firm on their 10-percent zone formula, but expanded it to both U.S.-originated charters and individual special discount fares. The United States apparently reiterated its view that the flexible fare formula should apply to both U.S. and Japan-originated flights. There was no progress on the issue of beyond rights and both sides apparently remained stalemated over the problems of landing rights and carrier designations as well. The United States maintained that Japan would not receive additional landing rights in Chicago unless restrictions on U.S. carriers' access to the Narita and Osaka airports were further liberalized. There was also a dispute over the U.S. claim that under the air accord, the United States was entitled to use alternate air-

ports to ease the bottlenecks at the major urban airports. With disagreement remaining on all these issues, another year ended without an accord.

Since the mid-December deadline passed without an overall agreement, the U.S. Civil Aeronautics Board (CAB) took what could be the first step in limiting service to the United States by directing Japan Air Lines (JAL) to file flight schedules for existing or planned service to any point in this country. This was a quasi-retaliatory move in response to Japan's refusal to permit United Airlines to fly to Tokyo from Seattle and Portland. The CAB also reportedly sent a confidential order to President Reagan recommending other sanctions against the Japanese airline, but asked that he withhold any action until the next round of U.S.-Japan civil aviation talks in early January.

High Speed Trains On November 4 the Joint Economic Committee held a hearing on the feasibility of high-speed rail transportation in the United States with technical support from the Japanese National Railways (JNR). This event also marked the creation of the Japan-United States Rail Congress, a bilateral group of Diet representatives and members of Congress.

High-speed rail transportation had been a dream of rail planners in the United States for two decades, but the only tangible result of that interest was the New York-Washington metroliner, whose speed was considerably slowed by the mid-1970s due to deteriorating track conditions. Japan, on the other hand, pioneered high-speed trains through its Shinkansen system, in operation since 1964. Operating on headways as close as 10 minutes during peak periods, the 16-car Shinkansen trains operate at average speeds of 100 miles per hour (with peak speeds of 130 mph).

The economic geography of the United States is considerably different from Japan, but there are a number of high-density corridors where high-speed rail transportation may be feasible. In 1981, Amtrak was still upgrading the Boston-Washington corridor, a project on which the Japanese National Railways provided some consulting services through exchanges of engineers coordinated by a permanent office in Washington.

The activity prompting the hearings in November came from the decision of JNR to provide a feasibility study of high-speed transportation in the Los Angeles-San Diego corridor, funded by a \$5-million grant from the Japan Shipbuilding Industries Foundation. The Foundation is responsible for dispensing for philanthropic purposes the profits from legalized gambling on motorboat racing in Japan. The Japan-United States Rail Congress was formed to help move the dialogue

on high-speed rail transportation in the United States out of the offices of transportation specialists and into Congress.

Energy Resource Trade and Cooperation

Several energy issues emerged during 1981 as bilateral issues, the most important of which concerned the dimming future of the joint research into synfuels made from coal liquefaction. Other issues involved nuclear fuel reprocessing, Japanese interest in an oil swap, and U.S. coal exports to Japan.

Coal Liquefaction At the beginning of the year a tripartite project (SRC II) of the United States, West German and Japanese governments in Morgantown, West Virginia that was expected to produce 18,000 barrels of synthetic fuel per day when completed, faced the possibility of being cancelled, a victim of the Reagan administration's budget cuts. The total cost for the West Virginia project was estimated at \$1.4 billion, divided among the United States (50 percent), West Germany (25 percent) and Japan (25 percent). Large cuts were slated in all government programs, and energy projects were slashed because the administration stressed that the initiative for commercial energy projects should be taken by the private sector. The fact that these new projects had not yet been started gave the Office of Management and Budget an opportunity to strike them from the proposed budget. President Carter's budget included \$368 million (with other coal development projects) for FY 1981 and \$712 million for FY 1982.

Among the three participants, West Germany had expressed doubt as to its ability to continue in the project due to fiscal difficulties, but the Japanese government had allocated ¥7.4 billion for FY 1980 and ¥10 billion for FY 1981 for this undertaking. The Reagan administration's proposal to abolish the SRC II project triggered debate in Japan's National Diet. On February 21 at a Diet hearing, Foreign Minister Ito stated that his ministry intended to negotiate on the future of the project, but admitted that there was a possibility that the project would go through changes due to the large-scale budget cuts proposed by the Reagan administration. MITI Minister Tanaka was critical of the United States on the grounds that the SRC II project was an international agreement that could not be dismissed by any one of the three.

Pessimism on the future of the project without government assistance was also voiced in Washington. On February 17, a representative of SRC II Inc., Gulf Oil's affiliate handling the project, testified at a hearing before the Senate Committee on Energy and Natural Resources that without the federal government's financing, it was doubtful that the project could continue. His position coun-

tered the argument by the Office of Management and Budget that energy projects aimed at the commercialization of resources should be financed by the private sector rather than by the federal government.

Energy officials of Japan, the United States and West Germany held a meeting in Tokyo on April 14 and 15 to discuss the future of the project. At the meeting, the American delegation asked the Japanese and German officials to review a cost-cutting proposal to transfer the project from the U.S. Department of Energy to the Synthetic Fuels Corporation. West German officials, concerned at possible increases in the cost, proposed shifting the present project or considering an alternative one. Japan reiterated its strong desire to continue the project. For the first time, though, the Japanese officials stated that they were willing to consider a possible reduction in the scale of the project as long as the technological development component was preserved.

On May 26 it was reported that the private sector participants would halt all construction of the synfuel plant. According to the report, officials of the Gulf Oil Corp., West Germany's Ruhr Coal Co. and Japan's Mitsui group agreed that prospects for the project were dim since the American and German governments had raised objections to continued financial assistance. The decision by the consortium of companies, however, called for completion of the plant's design and patent registration of the technology for use on future projects.

The final blow came on June 24 when the governments of the United States, Japan and West Germany formally agreed to drop plans to build the plant because of increasing costs. The decision to scrap the bilateral project—billed at its inception as the centerpiece of international efforts to develop alternative energy sources—was not unexpected given the earlier decisions outlined above by the U.S. and West German governments. Japan, alone among the participants, was anxious to continue the project, partly because the cooperative venture was viewed as symbolically important, but mainly because the West Virginia project represented a chance to assess the feasibility of a technology that could potentially be used to exploit the large coal deposits found in Australia and China.

Nuclear Fuel Reprocessing The Japanese government initiated discussions early in the year with the Reagan administration aimed at liberalizing what it considered to be the unduly restrictive bilateral agreement of September 1977 concerning the reprocessing of U.S.-supplied nuclear fuel in Japan. That agreement allowed Japan's already-built Tokaimura experimental reprocessing plant to go into operation, reprocessing up to 99

tons of spent nuclear fuel over the next two years—a time limit that was extended three times, to June 1, 1981. Simultaneously, the United States agreed to allow the government-owned Power Reactor and Nuclear Fuel Development Corporation, the operator of the Tokaimura plant, to reprocess an additional 50 tons of nuclear fuel by the June 1 deadline.

In place of the existing restrictions on nuclear-fuel reprocessing in Japan, which government officials maintained were hindering the country's future nuclear-energy development, Japanese negotiators wanted an open-ended agreement that would eliminate the practice of setting specific time limits for the Tokaimura plant to operate, as well as an increase in the ceiling on the amount of nuclear fuel that could be reprocessed to about 100 tons a year. The Japanese government also wanted to discuss private commercial spent-nuclear-fuel reprocessing in Japan. One private Japanese commercial reprocessing company, the Japan Nuclear Fuel Service Company, Ltd., had already been set up and in December 1980 the government gave it permission to start feasibility studies for a plant expected to be on-stream around 1990 with the capacity to reprocess approximately 1,200 tons of spent fuel a year.

President Reagan's initial response to the Japanese overtures came on July 16. Criticizing the Carter administration's restrictions on nuclear-fuel reprocessing, President Reagan emphasized that his administration would not oppose spent-nuclear-fuel reprocessing by foreign nations with a clear stand on nonproliferation. The President observed that the previous administration's nuclear policy did not coincide with the needs of America's allies who were interested in the development of nuclear energy to make them less dependent on imported oil.

The President specifically instructed the Nuclear Regulatory Commission and government agencies involved in the sale of enriched uranium to speed up the licensing procedure for the export of nuclear fuel. The United States, he said, should be considered by its allies as a reliable partner in the peaceful use of nuclear energy. However, he stressed that his administration would insist on a strong nuclear-nonproliferation policy and would strengthen international cooperation on nuclear energy and work closely with other nations to improve safeguard measures. The Japanese government was pleased that President Reagan confirmed America's commitment to nuclear nonproliferation while displaying a pragmatic approach toward the development of nuclear energy by countries such as Japan.

By fall, the Reagan administration agreed to lift the cap on how much spent fuel could be reprocessed at the Tokaimura plant, but it rebuffed Japan's attempt to have the

time limits on the facility's operation removed. Instead, the plant was to be allowed to operate until the end of 1984, by which time a permanent solution to the continued functioning of the facility would be reached. The United States also agreed to lift all restrictions on the construction of the private spent-fuel reprocessing plant in Japan, although it continued to have a say in the facility's eventual operations.

Oil Swap There was some speculation in early September that when U.S. and Japanese subcabinet officials met later that month, an oil-swap plan would be discussed that would send Alaskan oil to Japan in exchange for oil from Mexico. Since such a swap would violate the 1979 Export Administration Act, which among other things controls foreign sales of natural resources, congressional action on this proposal would be mandatory. In the past, many members of Congress objected to exporting crude oil since approximately 40 percent of U.S. oil must be imported. In May 1980, when the late Japanese Prime Minister Masayoshi Ohira asked for permission to buy 100,000 barrels per day of Alaskan crude as a *quid pro quo* for Japan's cooperation in supporting economic sanctions against Iran, the request was turned down because of the 1979 Act. Prior to the August recess, however, Representatives Sam Gibbons (D, Fla.), Bill Frenzel (R, Minn.) and James R. Jones (D, Okla.) introduced a bill (HR. 4346) calling for such a government-to-government exchange.

Under the proposed trade, the United States reportedly would have given Japan a portion of the Alaskan output of approximately 1.6 million barrels per day. In return, Japan would give the United States approximately 300,000 barrels per day of the oil it had agreed to buy from Mexico. Proponents of the swap argued that it would not only relieve Japan's heavy dependence on oil from the Middle East, but would also enable the United States to economize on the high costs of shipping oil from Alaska to the East Coast via the Panama Canal. Maritime interests opposed the plan, however, lobbying key members of the House Merchant Marine and Fisheries Committee that the waiver could result in the loss of some 3,200 maritime jobs, as less competitive U.S. flag carriers would be replaced by foreign-flag carriers in transporting the oil overseas. Faced with heavy bipartisan congressional opposition by November, the administration's Cabinet Council on Natural Resources and Environment decided against recommending a waiver of current U.S. law to allow the export of Alaskan crude oil.

Coal Exports The problems and prospects for U.S. exports of steam and metallurgical-grade coal to Japan were the focus at the July

2 annual meeting of the U.S.-Japan Coal Conference, a discussion forum set up in the spring of 1980 by the Coal Exporters Association and Japan's steel, electric power and cement industries.

The first day of the two-day meeting, held at Lake Tahoe, Nevada, was devoted to the same topic that dominated 1980's meeting—port congestion at Hampton Roads, Virginia and other major East Coast coal shipping points.

The infrastructure problems associated with a substantial expansion of western U.S. steam coal exports to Japan and other Asian countries were the primary subject of discussion during the second day of the meeting. Railroad officials assured the Japanese that with sufficient lead time (estimated at five to ten years) and rate levels permitting an adequate return on investment, the carriers could expand their capacity to handle any anticipated surge in steam coal export shipments. At the same time, though, there was implicit recognition that high freight rates in the West, where 800 to 1,500 miles separate mine sites and port facilities, could undermine the price competitiveness of Rocky Mountain steam coal relative to Australian and Canadian supplies.

Inadequate West Coast port facilities—including a lack of storage space, handling capacity and deep-water access for the larger colliers or coal-carrying ships being built—presented a more serious obstacle to expanded steam coal exports, American participants admitted, because of the enormous costs associated with port construction and dredging. The high price tags on port-development and channel-deepening projects and the large number of West Coast ports vying for the Far East's steam coal business were two reasons why the infrastructure problem was a major focus of a study that was being conducted by the Western Coal Export Task Force and the Japan Coal Development Company during the year.

High Technology Electronics

High technology products continued in 1981 to be an area of controversy, especially in the area of U.S. access to Japanese markets. The term is used here to include semiconductors, data transmission, and telecommunication equipment procurement.

Semiconductor Tariff Cut The Semiconductor Industry Association (SIA), a trade association of most of the major U.S. merchant semiconductor makers, had maintained for several years that Japan's formal and informal trade and investment policies denied American manufacturers market access opportunities equivalent to those Japanese semiconductor producers enjoyed in the United States. Among the barriers singled

out by the SIA were Japan's high tariffs on semiconductors, particularly integrated circuits (ICs).

Under considerable pressure from the United States, Japan agreed during the Tokyo Round of multilateral trade negotiations to cut its tariff on ICs from 12 percent to 4.2 percent by the end of the eight-year phase-in period for tariff reductions, in exchange for a reduction in the U.S. duty from 6 percent to 4.2 percent by 1987 as well. Subsequently, the Japanese government decided to accelerate initial implementation of all of its tariff concessions, and it cut the IC duty by two-eighths on April 1, 1980 to 10.1 percent. Meanwhile, the United States pared its tariff twice, first in January 1980 to 5.8 percent and then in January to 5.6 percent.

In the summer of 1980, the SIA suggested that both Japan and the United States lower their tariffs on integrated circuits to 4.2 percent in 1982 instead of waiting until 1987.

The Japanese government announced in May that it was prepared to join the United States in reducing the tariff. For the first time, Japan had agreed to liberalize access to its market without private and public prodding by American trade negotiators and industry representatives. In so doing, the government prevented the issue of accelerated IC-tariff parity from becoming an irritant in U.S.-Japan relations.

Accelerated tariff equalization for integrated circuits won relatively quick approval from Japan partly because Japanese semiconductor manufacturers had attained parity with American producers in product and process technology. The fact that a reduction or even elimination of the Japanese IC tariff would generate only an extremely small increase in imports from the United States and other countries also facilitated Japan's acceptance of the U.S. proposal. But the main reason the Japanese government and semiconductor industry were receptive to the idea was that they viewed this move as a way to contain the trade friction created by Japanese makers' substantial inroads into the American market for state-of-the-art computer memory devices.

Data Transmission The Ministry of Posts and Communications announced at the beginning of 1981 that it was studying the possibility of liberalizing conditions for domestic timesharing services competing with the government-owned Nippon Telegraph and Telephone Company (NTT). This announcement followed closely upon the decision to make changes improving the competitive position of foreign firms offering access to overseas data banks.

NTT offered a number of timesharing systems, and apparently viewed the easing of restrictions of leased line use as increasing the challenge from its commercial competitors.

If the regulations were to be changed, caution would still be exercised. In announcing the study, Post and Communications Minister Yamauchi indicated that competition will not be allowed to expand to a point where NTT would lose money on its own data transmission services. During 1981, however, this issue moved no further; faced with internal disputes in the government on how to proceed, no legislation to effect the necessary changes was drawn up before the year ended.

NTT Begins to Open On January 10 NTT made its first move to open participation in its procurement process to foreign companies in accord with the bilateral agreement signed in Washington in December 1981. NTT announced that it was soliciting applications for nine different types of equipment. The solicitation was for qualification applications, not actual bids on supplying the equipment in question. Companies judged to be qualified suppliers could then submit bids for supply contracts to be awarded beginning in June. According to NTT officials, 36 companies submitted applications, including the 22 Japanese companies and 14 Japanese subsidiaries of foreign companies. In addition, 113 domestic and foreign firms made inquiries without submitting applications.

Another change affecting NTT was the appointment early in the year of Hisahi Shinto, formerly of Ishikawajima-Harima Heavy Industries, as president. Former president Akikusa indicated in 1980 his desire to retire, and at one point Nobuhiko Ushiba (former ambassador to the United States and chief trade negotiator) had been asked to take on the position, but he refused. The change at the top had at least the symbolic value of removing a man associated with NTT's efforts to resist procurement of equipment from abroad.

Although NTT took steps to fulfill its obligations under the bilateral agreement, some problems obviously remained. U.S. Trade Representative William Brock expressed some dissatisfaction with NTT's efforts to Representative for External Economic Affairs Saburo Okita when he visited Washington at the end of February. Some companies complained that the application was too complicated and went so far as to require personal background information on the engineering staff. Significantly, the American companies that did submit bids were those which had established subsidiaries in Japan (like IBM Japan) and did not have to wait for the Commerce Department's delayed translation.

In June, the House Commerce Subcommittee on Telecommunications, Consumer Protection and Finance examined the implementation of the agreement. Administration witnesses agreed that it was still too soon to judge the effectiveness of the December

1980 agreement. Former USTR general counsel Robert Cassidy maintained that an 18-month to two-year observation period was necessary before any valid conclusions could be drawn, but there was a consensus that NTT had made "commendable efforts to show good faith" in implementing the procurement plan.

As the year went on it was clear that procurement activity by NTT was still in the early phases and it was too soon to make a definitive statement on how much equipment would be purchased from American companies. However, a number of developments took place in 1981, and at the end of the year, U.S. government officials remained satisfied with NTT's progress. One development was the invitation to foreign companies to bid on three items falling under procurement tracks 2 and 3 of the agreement—digital echo suppressors, Japanese-language telex terminals and automobile telephones. This marked the first solicitation for tracks 2 and 3. Other than this, bids were invited four times on various types of equipment in track 1 (the category included under the new GATT rules on government procurement).

Western Electric was involved in its own negotiations aimed at modifying its patent cross-licensing agreement with NTT. Originally signed in 1966, the license allowed NTT to use or lease (but not manufacture) equipment employing Western Electric's Japanese patents, while Western Electric had the right to manufacture equipment using NTT's American patents. Western Electric also had cross-licensing agreements with NTT's major suppliers.

To assist any companies interested in selling to NTT, and especially those without prior experience, NTT held a seminar in Tokyo early in the summer to outline the company's requirements and the precise mechanics of procurement under the agreement. The meeting was attended by 73 representatives from 30 American companies, and included Lionel Olmer, Undersecretary of Commerce for International Trade. Olmer's reaction to the Tokyo seminar and other NTT efforts was favorable.

The AT&T Fiber Optics Decision When American Telephone and Telegraph Company (AT&T) decided in the fall to award a contract for its first major fiber-optic communications system to its Western Electric Company, Inc. unit instead of to Fujitsu, Ltd., the low bidder, controversy was revived over national telecommunications-equipment procurement policies. When AT&T announced plans in 1980 for a 776-mile fiber-optic communications link between Moseby, Virginia, near Richmond, and Cambridge, Massachusetts, it expected to source all the fiber-optic equipment from Western Electric.

The manufacturing unit was in fact awarded the contract for the Washington-New York City leg of the system, which uses glass fibers to carry voice and data signals along light-waves. That move triggered complaints from Corning Glass Works about the anti-competitive nature of AT&T's procurement policies and the Federal Communications Commission (FCC) ordered the Bell System to solicit competitive bids for the Moseby-Washington and New York City-Cambridge segments of the network.

AT&T received eight bids on the fiber-optic cable contract. Joining Western Electric on the American side was the Harris Corporation of Melbourne, Florida; foreign bidders included not only Fujitsu but also Hitachi, Ltd., Nippon Electric Company, Ltd. and Sumitomo Electric Industries, Ltd., plus a Dutch firm and a French company. Fujitsu was the low bidder, reportedly coming in several million dollars below Western Electric. AT&T was ready to award the contract to the Japanese telecommunications-equipment and computer maker until word of this plan leaked out in late October and sparked a controversy in Washington over whether the contract for such a sophisticated communications system should go to a foreign supplier. Adding fuel to the fire, an FCC commissioner charged that Fujitsu's bid was "illegally low."

AT&T quelled this criticism by awarding the fiber-optic cable contract to Western Electric on the grounds that it was in the national interest to select an American supplier. The telecommunications-equipment and computer supplier also noted that the award of a contract for an important link in the U.S. telecommunications network to a non-American firm was not without precedent, citing the Department of Defense's significant purchases of fiber-optic-system components from Nippon Electric Company, Ltd. for use in the North American Air Defense Command (NORAD).

At the same time, though, Bell revived the issue of whether it was fostering competition for its business from suppliers other than Western Electric. This issue had implications for U.S.-Japan trade relations in light of the agreement reached in December 1980 to open NTT's equipment contracts to American bidders, considered in the previous section.

Fujitsu executives argued that AT&T's rejection of their company's otherwise qualified bid on the grounds that it came from a foreign supplier violated the terms of the bilateral procurement pact. They also disputed Bell's claim that the contract award to Western Electric was in the national interest, pointing out that two American firms were designated as subcontractors in Fujitsu's bid and that AT&T had bought telecommunications equipment in the past from foreign suppliers without raising national-security ques-

tions. In addition, Fujitsu officials labeled the charge that the company's bid was "illegally" low as totally groundless.

Fujitsu, in fact, maintained that AT&T would have actually been acting in the national interest if it had awarded the contract to the Japanese firm. Americans would have benefited from lower costs, Fujitsu said, because its bid of \$56.4 million was 20 to 30 percent lower than Western Electric's; approximately half of this bid would have gone to American subcontractors, the company added. Moreover, Fujitsu asserted, acceptance of its bid, which incorporated the cutting edge of telecommunications technology, would have accelerated U.S. implementation of advanced fiber-optic techniques.

In early December, Fujitsu America, Inc. made a formal protest of the decision by asking the Federal Communications Commission (FCC) to turn down AT&T's application to build the East Coast fiber-optic communications system using Western Electric Company. No decision was made by the FCC on this by the end of the year. However, if the FCC were to deny AT&T's application as demanded by Fujitsu, AT&T would have to begin the entire bidding process over again.

Agriculture and Fisheries

Agricultural issues in 1981 varied greatly from market access problems in Japan concerning beef and citrus to the implementation of the American Fisheries Promotion Act that began to hurt the Japanese fishing industry. Perhaps the most interesting controversy, and certainly the most unexpected one, was over the quarantine placed by Japan on imports of untreated fruits and vegetables from California because of the Medfly infestation.

Medfly Problems The Medfly infestation in California seriously disrupted agricultural trade between that state and Japan in the second half of 1981. The problem was caused by the unexpected appearance of the Mediterranean fruitfly in certain areas of California during the summer. Hitherto unknown in the United States, this insect is extremely damaging to certain kinds of fruits and vegetables and its appearance brought an immediate campaign to eliminate its presence. Japan had also been free of the Medfly, and the possibility of contaminated fruit arriving from California caused considerable concern in Tokyo.

After several days of high-level bilateral discussions in Washington and Tokyo during August, the government of Japan scrapped its initial plans to quarantine imports of all untreated California fruits and vegetables only hours after the ban was slated to go into effect. Under intense pressure from federal and state officials concerned that restrictions by Japan would encourage other foreign buyers

to follow suit, the Japanese government agreed instead to continue accepting produce certified as pest-free and not to require fumigation or cold treatment of California fruits and vegetables originating outside the areas already subject to the Federal quarantine.

As originally outlined by Ministry of Agriculture, Forestry and Fisheries officials, Japan would have required that California fruits and vegetables from outside the federally regulated quarantine areas receive "appropriate" treatment—presumably either fumigation, for which adequate facilities were lacking, or costly extended cold storage—before being shipped. Produce from other states transshipped through California, such as Arizona lemons, would have required treatment as well, unless it was in a sealed container. More importantly, the Japanese action would have necessitated treatment of fruits and vegetables that are not hosts to the Medfly. While virtually all fruits are susceptible to the Medfly, lemons are not and neither are strawberries and melons. Among vegetables, only tomatoes and bell peppers are hosts to the Medfly, and Japan was not importing them from the United States.

By the end of August, however, with the news on the Medfly infestation in California worsening daily, the Japanese government position was essentially back to where it was before the bilateral government consultations. This was announced after several days of new bilateral negotiations in Tokyo.

At the conclusion of the Tokyo meetings, the Japanese government announced decisions on several points. First, fruits and vegetables originating outside California but shipped through that state would be accepted in Japan if they traveled in sealed marine containers or enclosed semitrailers. The United States Department of Agriculture (USDA) had to certify that the fruits and vegetables did in fact originate outside California and that they came by a suitable sealed container.

Second, fruits and vegetables which are hosts to the Medfly that came from outside the USDA-designated infested areas in California had to be fumigated by the exporters and provided with a certificate to that effect by the USDA. Fruits and vegetables with such certification were then accepted in Japan with only the usual import inspection. By requiring fumigation, the Japanese indicated that they did not trust U.S. claims that the Medfly was present only within the designated areas.

Third, no agreement was reached on which types of fruits and vegetables are potential hosts for the Medfly. Japan originally included all fruits and vegetables, and while this list was shortened, it still included strawberries, melons and some types of lemons which the United States argued were not hosts to the Medfly. California supplied most of the

\$63 million of lemons shipped to Japan in 1980. This issue of which fruits and vegetables are potential hosts received further consideration as a delegation of Ministry of Agriculture, Forestry and Fisheries (MAFF) experts went to the USDA Medfly research center in Hawaii.

Japan also sent a group of experts to California to study the Medfly and the government indicated that it would alter its policies on importation as the situation changed. The net result of the meetings in Tokyo, however, was to leave the Japanese fairly close to their original position, with the exception of some vegetables and fruits no longer included on the restricted list. No further changes in government policy took place until 1982.

The quarantine on California produce initially wreaked havoc with the state's \$100-million-plus fruit and vegetable export trade with Japan. Shipments were suspended from mid-August until mid-September, held up at first while the two governments decided what pesticide would be used to fumigate the produce and later while California growers scrambled to build EDB fumigation chambers. Then, longshoremen at the port of Long Beach refused to handle EDB-treated produce bound for Japan, citing reports that the pesticide, which was tentatively scheduled to be banned by July 1983 for use on all U.S. agricultural products, could cause cancer. The dock workers eventually agreed to load the produce under strict conditions, such as handling only sealed containers; however, their Japanese counterparts subsequently refused to offload the first American shipments arriving in Japan in mid-October without repeating U.S. tests certifying that the EDB-residue level on the produce was 0.13 parts per million or less.

California growers and other producers worked extremely hard in the wake of the Medfly crisis to maintain their vital export trade with Japan, the second largest foreign buyer of American horticultural products. As

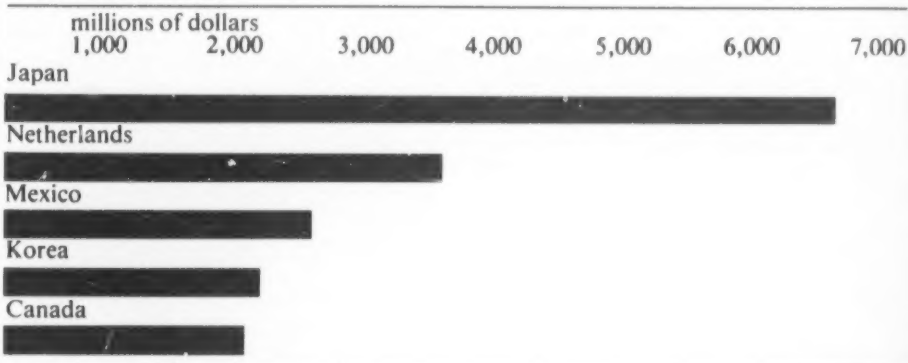
a result, the volume of fruit and vegetable exports to Japan held up surprisingly well despite the initial disruptions in the trade and continuing fumigation problems in California. In fact, U.S. lemon and grapefruit shipments from the start of the 1981/82 marketing year through November were running only slightly behind their year-earlier levels, while orange exports were up substantially. Still, shippers apparently substituted Arizona and, to a lesser extent, Florida citrus for much of the fruit normally sourced from California.

Citrus and Beef Japan's citrus and beef imports in 1981 once again became a symbol to many Americans of Japan's barriers to imports of U.S. agricultural and manufactured products. The issue flared up in the fall after Secretary of Agriculture John Block requested an earlier date for reopening the negotiations on beef and citrus quotas during the annual round of high-level consultations on agricultural issues in Tokyo on October 14 and 15. The existing agreement was to expire on March 31, 1984 and the two governments had agreed to begin talks at the end of 1982 concerning the fate of the quotas beyond the expiration date.

Even before the U.S. delegation left Washington, the Japanese press reported that a government official had outrightly rejected both requests. A statement from the Ministry of Agriculture, Forestry and Fisheries said that regarding "beef and orange imports from the United States, we are abiding by our commitments under the [present] . . . agreement. . . and won't be able to comply with any U.S. request to initiate negotiations at this time." Japan remained firm on this position.

During the House Ways and Means trade subcommittee's oversight hearings October 28 to November 3, Secretary Block reviewed his visit to Japan. In his opening statement, Secretary Block noted that Japan remained American agriculture's top customer, buying approximately 80 percent of grain imports

The Five Largest Export Markets for U.S. Agricultural Products in 1981



Source: Department of Agriculture

and 95 percent of soybean requirements from the American farmer. Subcommittee members appeared impatient with these statistics, however, and more concerned about rectifying the bilateral trade deficit.

Criticism was expressed by Rep. Richard Schulze (R, Pa.), for one, who charged that Congress has heard "enough lip service, when in reality we need some definitive action." The Secretary agreed that this message was precisely the one he sought to drive home in his talks with the Japanese, stressing that the expansion of U.S. agricultural imports would be one of the best ways to begin addressing the imbalance. Moreover, it would be consistent with the "food security" aspect of Japan's comprehensive security policy, he said. While Japanese officials reportedly indicated they would consider building more storage facilities to handle an influx of agricultural products, Mr. Block warned committee members that while "many countries talk about 'food security', few actually follow through in building the necessary storage facilities."

Former U.S.-Japan trade task force chairman James R. Jones (D, Okla.) asked about expediting the negotiations to expand the citrus and beef quotas. Mr. Block felt that the Japanese understood the importance of proceeding as soon as possible on this matter even though they refused to accelerate the beginning of negotiations. He was optimistic that trade in these particular commodities would be liberalized in the near future.

Fisheries In accordance with the procedures of the Fishery Conservation and Management Act of 1976, which extended jurisdiction of U.S. fisheries 200 nautical miles from U.S. shores, the Department of Commerce set the total allowable level of foreign fishing (TALFF) at 2.1 million metric tons for 1981 (up from 1.51 million tons in 1980). Out of the TALFF, Japan's allocation was 1.424 million tons, up from 1.22 million tons in 1980. While the amount was up, Japan's share of the TALFF was 67.6 percent, down from 80.8 percent in 1980. Most of Japan's allocation was in the Bering Sea (1.18 million tons) and the Gulf of Alaska (217,000 tons).

Implementation of the American Fisheries Promotion Act (AFPA), a law enacted late in 1980 that was intended to eventually phase out all foreign fishing in the U.S. 200-mile zone, also proceeded in 1981 and began taking its toll of the Japanese fishing industry. Early in August, Japanese, South Korean and European fishing interests strongly objected to the United States' announced plan to hike the fees for foreign fishing in U.S. waters some \$58 million. In 1981 fees were approximately \$25 million, up sharply from 1980's \$14 million. While the increase was in complete accordance with the

AFPA, Japanese industry representatives expressed their strong dissatisfaction and fear that fishing would become unprofitable.

Of the \$14 million the United States planned to spend in 1981 to implement the "observer program" to insure compliance with the AFPA, \$10 million was earmarked for monitoring Japanese fishing vessels, roughly in accordance with Japan's share of the TALFF. Moreover, quotas on so-called premium fish, such as butterfish, cod or haddock, were to be reduced sharply in the future, although quotas for lower-quality fish, such as Alaskan pollack, were expected to remain unchanged for Japanese fishermen.

In an effort to keep a toehold in their most bountiful foreign fishing zone, however, the Japanese were beginning joint harvesting, processing and marketing of U.S.-zone fish in both countries. A seven-member Fishery Trade Mission from Japan also toured Atlantic, Gulf and Pacific processing facilities to share their expertise on processing technology and advise their U.S. counterparts on methods to make lower-quality species, such as rockfish and squid, more attractive to Japanese consumers through quicker freezing and better seasoning. Kanai Fisheries Director Kentaro Okano said that the main objective of the mission was to identify what kinds of fish were caught by U.S. fishermen but not used, and then return with samples to test Japanese demand for these particular under-used species.

Lumber

Japanese log and lumber dealers and wholesalers asked the trading companies to slash their wood imports from the United States and Canada in 1981 because a two-year slowdown in new housing starts in Japan resulted in mounting inventories and falling wholesale prices that were below the costs of imports. In late February, the Japan-American Log Dealers Association requested importers to limit their contracts for North American logs to half of 1980's actual purchases for the indefinite future—a request to which the large trading companies agreed. At the same time, Japan's largest lumber wholesaler, the Keihin-American Lumber Wholesale Dealers Association, sought the complete elimination of purchases of American and Canadian lumber during the month of April, while other Japanese wholesalers asked importers to slice their North American lumber deliveries in half over the next several months.

Japanese housing starts fell by 3.6 percent in 1979 an additional 15 percent in 1980 and 9.2 percent in 1981. This was the major source of the Japanese wood-product industry's inventory and pricing difficulties, but the boom-and-bust buying pattern of Japanese log and lumber purchases was also a

factor. Faced with a rapid escalation in North American log and lumber prices in 1979, and anticipating that 1978's robust pace of new housing starts would continue, Japanese importers had stepped up their wood purchases from the United States and Canada in an attempt to beat further price hikes. The result was a 24.2-percent jump in the volume of log and lumber exports from the United States to Japan in 1979, following a 5-percent rise in the previous year and a 7.7-percent decline in 1977.

As the housing market in Japan first turned downward and then slumped, Japanese log and lumber importers started cutting back on their purchases from the United States and Canada to keep inventories, already swollen by 1979's speculative buying, from rising further. The value of total U.S. wood shipments to Japan consequently fell by one-third in 1981.

The announcement of drastic reductions in Japan's log and lumber imports from the United States angered Pacific Northwest sawmillers in particular, partly because they had already been hard hit by the slump in the U.S. housing industry, but mainly because the cutbacks represented an apparent about-face for the Japanese wood-product industry. At the first meeting of the private-level U.S.-Japan Lumber Trade Promotion Committee in November 1980, as well as at a subsequent session of the U.S.-Japan Forest Products Committee, a government-industry forum, the Japanese side committed itself to boosting lumber purchases. Japanese government officials and industry representatives did state then that an expansion in lumber imports would take time, especially in view of the depressed state of the housing market in Japan, but there were few indications that a substantial increase in exports was in the offing.

Color Televisions

Dumping Case In 1981, action was taken on a dumping case against Japanese color television imports originally filed in 1969. In the spring of 1980 the Department of Commerce reached an agreement with the major U.S. importers of Japanese-made television sets, under which the U.S. government would drop all claims for dumping duties on sets imported from Japan through March 31, 1979 in exchange for settlement payments totaling a projected \$75 million. Implementation of this agreement had been blocked, however, by two preliminary injunctions, one issued in May 1980 by the U.S. Court of Appeals in Washington, D.C. and the other granted at the end of the year by the Court of International Trade (formerly the U.S. Customs Court), and any settlement of the 11-year-old TV dumping case appeared to be several years away.

The initial injunction was won by the Committee to Preserve American Color Television (COMPACT), a labor-management coalition that claimed U.S. importers of Japanese-made television sets owe between \$600 and \$700 million in dumping duties. That order was designed to give the U.S. Court of Appeals time to consider COMPACT's appeal of a U.S. District Court ruling that the Customs Court, not the District Court, had the jurisdiction to review government actions in dumping cases, as COMPACT had requested.

Significantly more important was the temporary injunction won by Zenith Radio Corporation from the Court of International Trade. In enjoining the Commerce Department, the court stated that there were indications the government acted "arbitrarily and in bad faith" in reaching a negotiated settlement with U.S. importers of Japanese-made television sets. Moreover, the court said, precluding "judicial inquiry into the government's alleged failure to administer the antidumping act would scarcely be consistent with the public interest," which "lies in the faithful execution by the Executive Branch of the laws enacted by Congress." The court also concluded that Zenith "stands to be irreparably injured" if it is not permitted to challenge the agreement in court.

In the spring 1981 round of developments in the TV dumping case, COMPACT switched its suit from the U.S. Court of Appeals to the Court of International Trade, in effect joining Zenith. In asking the court to direct the government to complete duty liquidations on Japanese-made television sets in the normal, case-by-case way, the coalition argued that the settlement agreement with U.S. importers was "incurably tainted by an alarming history of political interference, bad faith, and lawlessness on the part of those U.S. government officials entrusted with the administration and enforcement of the antidumping law."

Three Japanese consumer electronics makers also attacked the settlement by asking the ITC in 1980 to revoke the 1971 dumping finding applicable to color and black-and-white television receivers imported from Japan. On June 4, 1981 the Commission concluded by a three-to-one vote, that the American television industry (defined to exclude the seven U.S. television-manufacturing subsidiaries of Japanese companies) would be threatened with material injury if the dumping finding were revoked. The revocation, if it had been granted, would have applied only to future imports of Japanese-made television receivers. U.S. importers would still have been liable for dumping duties on sets shipped in before the date of revocation.

A strong rebound in imports of complete color television sets and picture tubes from

Japan during the first quarter of 1981 obviously did not help the Japanese manufacturers' case. In hearings before the ITC, spokesmen for the Japanese producers linked this upsurge to booming American demand for color television sets, sparked by burgeoning sales of such products as video cassette recorders, video games and home computers. Despite full-capacity operation of their U.S. plants, it was noted, the domestic manufacturing affiliates of Japan's seven major TV-set makers were unable to meet the rising demand from their onshore facilities, forcing them to supplement their U.S. output with imports from Japan. In addition, American-made picture tubes were in short supply, particularly those for the increasingly popular 13-inch sets, the spokesmen pointed out.

COMPACT seized on the turnaround in imports to buttress its arguments against revocation, however. The labor-management group contended that the upturn not only posed a new threat to U.S. television makers but also presaged what would happen if the revocation were granted. COMPACT argued as well that the jump in set imports violated an "informal understanding" that the U.S. government reached with Japan in 1980 when the orderly marketing agreement on Japanese-made color television sets was allowed to expire, although there was no evidence that Japanese television exporters were asked to give or gave any assurances about the future level of their shipments to the United States.

The ITC majority was apparently not swayed by a Department of Commerce finding—announced just before the vote was taken—that most major Japanese television manufacturers were no longer selling television sets to the United States at less than fair value. In a review of imports during the April 1979-March 1980 period, Commerce found no dumping margins on sales by Matsushita Electric Industrial Company, Ltd., Nippon Electric Company, Ltd., Sanyo Electric Company, Ltd., Toshiba Corporation and Victor Company of Japan, Ltd. Moreover, although margins were identified on sales by Hitachi, Ltd., Mitsubishi Electric Corporation and Sharp Corporation, these margins were insignificant, amounting at most to 0.34 percent on a weighted-average basis. Only one manufacturer—General Corporation—and the sales agent for another small maker were not cleared of dumping. (Sony Corporation, Japan's other major television-set producer, was excluded from the dumping finding.)

In a related development, Zenith Radio Corporation, not satisfied with the victory American television-set manufacturers won before the ITC, filed a summons with the Court of International Trade indicating that it would challenge the results of Commerce's fair-value comparisons on the grounds that

improper adjustments were made in Japanese home market prices.

Antitrust Case In another pending matter concerning television imports, the civil antitrust suit brought against Japan's principal consumer electronics manufacturers over ten years earlier was dismissed on March 27 by a federal judge in Philadelphia. In the last of several rulings in response to a 1978 motion by the defendants for summary judgment, Judge Edward R. Becker of the U.S. District Court for Eastern Pennsylvania stated that Zenith Radio Corporation and National Union Electric Corporation (NUE) failed to provide sufficient evidence that Japanese manufacturers' penetration of the U.S. consumer electronics market was the result of a conspiracy, the major outstanding claim in the case. In 1980, the judge threw out most of the allegations made by the plaintiff of dumping under the little-known Antidumping Act of 1916, and the remaining charges were dismissed in the most recent opinion.

The suit that led to one of the most extensive and complex antitrust cases in recent U.S. legal history was filed by NUE in December 1970. It charged seven Japanese television makers with conspiracy to fix prices in order to monopolize the American TV market. Four years later, Zenith brought a similar civil antitrust suit against the makers, but its complaint was more encompassing than NUE's in terms of allegations and defendants, as well as product coverage, extending basically to all consumer electronics companies and their American affiliates plus Motorola, Inc. and Sears, Roebuck and Company. Each of these firms was charged with dumping, price fixing and other unfair trade practices; collectively, they were accused of conspiracy. For pre-trial purposes, the two suits were consolidated and assigned to the Philadelphia U.S. District Court.

Still to be resolved were the counterclaims filed by the defendants against Zenith and NUE. They contended that any antitrust investigation should be directed to Zenith, alleging that it was a potential monopolist, trying to restrict, hamper or restrain competition in the American television market by filing multiple actions against Japanese consumer electronics manufacturers. In addition, the defendants argued, Zenith itself was engaged in various anti-competitive activities that restrained trade.

Industrial Fasteners

U.S. industrial fastener manufacturers, backed by the unions representing machinists, steel workers and automotive workers, began in the summer of 1981 to push for a three year extension of the 15-percent escape-clause tariffs levied on ferrous bolts, nuts and large screws, most of which were coming

from Japan. The higher duties, scheduled to expire on January 5, 1982, were imposed by President Carter in early 1979 after an 18-month wrangle between the President and his economic advisors on the one side and the Congress and the domestic fastener industry on the other over the impact of fastener imports on American manufacturers.

Petitioning the International Trade Commission (ITC) to recommend continued import relief to President Reagan, U.S. fastener manufacturers argued that removing the escape-clause duties would "frustrate the domestic industry's recovery effort and indeed would undo much of the progress already made." Import protection allowed American fastener producers to launch capital-spending programs, particularly in the area of new technologies aimed at higher productivity, that would help them compete better with foreign suppliers, the petitioners contended. Moreover, it was added, the fastener industry's output, employment and profitability were "significantly lower" than in 1978, while import penetration remained high—47.4 percent of the market in 1980 and 49 percent in 1981's first quarter, compared with 45 percent in the first half of 1978 and 42 percent in the year-earlier period.

The trigger price mechanism (TPM) contributed to the American fastener industry's continuing slump, the ITC was also told. On the one hand, the petitioners noted, the TPM encouraged the import of fabricated steel products like nuts, bolts and screws since these products were excluded from TPM coverage. At the same time, though, trigger prices boosted the cost to U.S. fastener makers of steel wire rod. The state of the U.S. automotive industry, a major market for steel fasteners, was also cited as a cause of domestic manufacturers' problems, as were the wage and price guidelines announced in 1978, which the petitioners claimed controlled the prices of nuts and bolts and screws more than the costs of making them.

Despite the heavy pressure from the industry, the ITC advised the President in November that the 15-percent escape-clause tariffs levied on ferrous nuts, bolts and large screws should be allowed to expire. Following the advice of the ITC, President Reagan allowed the tariffs to expire as scheduled on January 5, 1982.

Aluminum

Surging U.S. exports of aluminum ingot to Japanese industrial users early in the year triggered a chorus of protests from representatives of Japan's primary aluminum industry, which had been plagued by overcapacity, sluggish domestic sales and heightened foreign competition in recent years. From just 5,578 metric tons in 1977, shipments of

American-made aluminum ingot to Japan leapfrogged to 90,153 metric tons in 1979 and then more than tripled to 307,065 metric tons in 1980. In the process, the share of apparent Japanese primary aluminum consumption supplied by American producers jumped to an estimated 14 percent (from 6 percent in 1979 and less than 1 percent in 1977).

With the 1973-74 oil crisis and subsequent hikes in world petroleum prices, Japan's primary aluminum industry lost whatever competitive edge it might have had vis-a-vis American producers, since it relied primarily on electricity generated by oil-fired power plants, while about four-fifths of the U.S. aluminum industry's electricity requirements were provided by lower-priced hydroelectric or coal-burning plants. As a result of this production cost differential, the delivered price (including tariff) of U.S.-produced aluminum ingot in Japan was at least ¥100,000 (\$444 at average 1981 exchange rates) less than the ¥488,000 (\$2,213) price of a metric ton of Japanese-made aluminum, the Japan Aluminum Federation calculated.

Given a price differential of this magnitude, the Japanese primary aluminum industry asked the government for some form of relief from import competition. In May, the Ministry of International Trade and Industry (MITI) was drafting a long-term restructuring plan for the industry, and by early October, the Industrial Structure Council advised MITI that Japan's aluminum-refining capacity would have to be slashed by an additional 36 percent if the Japanese primary aluminum industry was to stave off complete collapse. Aluminum smelters had already scrapped or mothballed one-third of their annual capacity in the late 1970s, paring it from 1978's 1,640,000-metric-ton level to 1,110,000 metric tons. According to the Council, yearly smelting capacity needed to be cut to 700,000 metric tons by 1985, according to its relief plan for the beleaguered industry.

Staggering under large inventories of domestically produced ingot, Japan's six major aluminum refiners had already started to trim their capacity further. By October, Sumitomo Aluminum Smelting Company, Ltd., the largest smelter, had shaved its refining capacity to 190,000 metric tons from 290,000 metric tons twelve months earlier, while Showa Keikinzoku K.K. reduced its capacity by 50,000 metric tons since the summer of 1980. In addition, Mitsubishi Light Metal Industries, Ltd. suspended operation of a 76,000-metric-ton smelter in October, and Nippon Light Metal Company, Ltd., Japan's only integrated aluminum fabricator, mothballed 30,000 metric tons of capacity, boosting its 1981 idled capacity to 74,000 metric tons.

These cutbacks, plus parallel moves by other Japanese primary aluminum producers

lowered the industry's annual ingot capacity to 640,000 metric tons, or less than the level recommended by the Industrial Structure Council.

In addition to cutting capacity, the Industrial Structure Council advised the government to find some way to give Japanese primary aluminum producers a break on electricity rates. This recommendation went to the heart of the industry's problem—energy costs—which represented between two-fifths and one-half of total production costs in Japan as well as the United States. The Industrial Structure Council also endorsed the participation of Japanese smelters in overseas "development-import projects" in its relief plan for the primary aluminum industry. Ingot from such projects reportedly accounted for about one-fourth of the primary aluminum that Japan imported during the April 1980-March 1981 period, and this percentage was expected to rise as new ventures in Australia and other bauxite-rich countries came on stream.

Curbs on aluminum-ingot imports were not among the recommendations made by the Industrial Structure Council, even though both MITI and the Ministry of Finance were considering import-restrictive measures. MITI officials were evidently pushing for a variant of the tariff-quota system. Arguing that such a plan would contravene Japan's international obligations, Finance Ministry representatives favored a temporary hike in the duty on ingot imports under the "safeguard" provisions of the General Agreement on Tariffs and Trade (GATT).

By November, MITI (in opposition to the Ministry of Finance) pushed ahead with plans to introduce a tariff quota on aluminum ingot as the best way to provide the industry with relief from low-priced U.S. import competition. Under MITI's plan, ingot bought through long-term contracts or purchased from foreign suppliers in which Japanese companies had an equity interest would enter Japan duty free instead of at the 9-percent tariff rate. Importers would then turn over part of the tariff savings to a pool earmarked to help Japanese smelters to finance the scrapping their excess refining capacity. Ingot bought on the spot market, which covered most of the aluminum imported from the United States, would remain subject to the 9-percent duty, however.

MITI's three-year import-relief proposal drew the fire of Finance Ministry officials, who argued that the plan would cost the government about ¥30 billion (\$136 million) a year in lost tariff revenues at a time when it was trying to reduce the budget deficit. Ministry of Finance officials favored a temporary, across-the-board increase in the ingot tariff rate to between 10 and 13 percent, combined possibly with a cut in the duty on high-

sulfur fuel oil used by smelters.

MITI as well as the aluminum industry opposed a hike in the ingot duty on the grounds that such a move would deter smelters from participating in overseas "development-import" projects.

U.S. aluminum exporters stood to lose no matter how the Tariff Council resolved the inter-ministerial wrangling over import relief for Japan's aluminum-refining industry in 1982. The U.S. government lodged a complaint with Tokyo about MITI's proposal, which was more trade distorting than the Finance Ministry's plan, but it was no happier with the Finance alternative.

Direct Investment Activity

Data on foreign investment activity always appear after a considerable time lag, so that what can be presented here covers rather than 1981. Because the situation in 1980,

cause there are discrepancies between American and Japanese data, both are presented. In addition, use of both sources provides a perspective on investment from both the investing country and the recipient country.

The United States in Japan

U.S. Data According to annual data collected by the Department of Commerce, the net book value of U.S. foreign direct investment rose by \$26.7 billion or 14 percent in 1980 to a total of \$213.4 billion. At only \$66 million, the increase over the 1979 level in U.S. investment in Japan ranked thirty-second among countries with U.S. investment. This compares to a \$803 million increase from 1978 to 1979 that had ranked Japan seventh in terms of increased investment. Direct investment increased at the highest rate, 18 percent, in developing countries, followed by a 13 percent increase in developed countries.

As in earlier years, the largest dollar amounts of U.S. direct investment increases flowed to the developed countries, which absorbed \$18.4 billion or nearly 69 percent. Flows to the developing countries rose to \$8.2 billion, accounting for 30.5 percent of the increased funds. The remaining one percent went to affiliates that have operations spanning more than one country that are engaged in petroleum shipping, oil and gas drilling or water transportation in Commerce's "International" category. Out of the developed countries, Canada, the United Kingdom and West Germany drew the greatest dollar increases in U.S. investment, while Mexico stood out among the developing nations. Given the fact the largest dollar flows went to the developed countries, the minuscule in-

vestment flow directed toward Japan is all the more surprising.

In terms of net book value, U.S. direct investment in Japan rose in 1980 to \$6.3 billion or tenth among those countries in which U.S. companies invest. This is the same rank it held in 1979. By region, 74 percent of U.S. direct investment was in developed countries (60 percent of that in Western Europe), 25 percent in developing countries and 2 percent unallocated. Japan accounted for 2.9 percent of the total, or 3.7 percent if U.S. direct investment in Canada is excluded.

By sector, the most significant jump in U.S. foreign investment in 1980, as in 1979, was in petroleum. New investment in this area was nearly \$8.2 billion, which raised net book value to \$46.9 billion. Out of this, 72.8 percent was invested in the developed countries.

The largest category of new investment, \$10.4 billion, went to the manufacturing sector. With this addition, the net book value of the U.S. overseas direct investment position in manufacturing rose to \$89.1 billion, up 13.2 percent from 1979. Of this amount, 80 percent was in the developed countries. Canada by itself accounted for 21 percent. Within this sector, the largest amounts went to investments in chemicals and related products, and nonelectric machinery.

The two other sectors in which American companies had large investments were finance and insurance, and trade which together received a \$5.3-billion infusion of money. These inflows boosted the net book value of finance and insurance holdings at yearend to \$27.2 billion, split 60/40 between developed and developing countries. Trade holdings rose 13.6 percent to \$25.8 billion, 80 percent in industrialized countries.

U.S. direct investment trends in Japan in 1980 were similar to the overall trends except in petroleum. U.S. companies withdrew \$340 million from their petroleum holdings in Japan, a reduction of 17.8 percent, after increasing their investments in both 1978 and 1979. This reflected the generally depressed state of the petroleum industry, as discussed in Part IV. American investors made a \$215 million addition to their Japanese holdings in manufacturing, bringing the total to nearly \$3 billion. Gains in the manufacturing sector were divided primarily among nonelectric machinery with \$83 million (up 7.8 percent), chemicals and related products with \$26 million (up 3.9 percent), electric and electronic machinery with \$24 million (up 13 percent), and transportation equipment with \$18 million (up 7.2 percent). This placed Japan eleventh as a destination for U.S. manufacturing investment behind Canada, Australia, Brazil, Mexico and six Western European nations. A large percentage increase, 19.4 percent, occurred in U.S. investment in Japanese

finance and insurance even though the total net book value in this sector, \$191 million, remained small.

Japanese Data In October, the Ministry of International Trade and Industry (MITI) issued its annual survey of foreign-affiliated firms in Japan, covering the fiscal year ended in March 1980. Begun in 1967, these annual surveys provide data on the current status of foreign affiliates—defined as any company with more than 25-percent foreign ownership—and compare them with their Japanese counterparts. Of the 2,281 foreign affiliates operating in Japan as of March 31, 1980, MITI received 1,638 responses, of which 1,315 were complete. It should be remembered that all of the following percentages are based on this partial sample.

In FY 1979, for the first time, the largest proportion of survey respondents were commercial companies (44.1 percent of the total), which was greater than the 42.8 percent in manufacturing. Among newly established firms, commercial companies were an even larger 53.4 percent of the total.

After the final vestiges of control over foreign direct investment in Japan were eliminated in the early 1970s, the proportion of foreign-affiliates in which foreign ownership exceeded 50 percent of the firm's outstanding stock jumped considerably, from 46 percent in FY 1973 to a high of 78 percent in FY 1977. However, since then a decline in the proportion set in, and in FY 1979, 62.9 percent of all newly established firms showed a foreign ownership in excess of 50 percent. Wholly-owned subsidiaries were the major part of this decline, dropping from 47 percent in FY 1978 to only 39 percent in FY 1979. The decline in the figures for newly established firms brought to 53 percent the percentage of all firms surveyed with a foreign ownership share in excess of 50 percent. The size distribution of foreign affiliates showed little change from the previous year, with a large 43.9 percent capitalized at less than ¥10 million (\$453,000 at 1981 exchange rates).

Firms listing a parent firm in the United States continued to be the most numerous, at 51 percent of all respondents. European-affiliated firms accounted for 32.5 percent and Asian-affiliated firms for 10.9 percent. Firms with multiple foreign parents are classified by the country of the firm holding the largest share of the affiliate's stock. Even though American-affiliated companies remained the most numerous among total respondents, their share among newly established firms continued to drop. For the first time, European affiliates outnumbered American affiliates among new firms by a share margin of 41.2 percent to 31.8 percent respectively.

Among firms with American ownership,

the majority were in manufacturing (55 percent), with commerce (31 percent) a distant second. This contrasts strongly with the overall ratios presented above in which commerce exceeded manufacturing slightly. Because American firms began moving into Japan back in the 1950s when investment controls were still in effect, only 42.2 percent of them had ownership exceeding the 50 percent foreign ownership level (compared to 53 percent for all respondents). On the other hand, more large American firms were in Japan, with the share of firms exceeding ¥100 million in capital at 44 percent of American-affiliated respondents (compared to 35 percent for all respondents).

American firms also remained slightly more profitable, with an after-tax net profit to sales ratio of 2.4 percent (compared to 2.0 percent for all respondents). This also compared favorably to Japanese firms, where the same ratio for all business corporations was only 1.2 percent.

Japan in the United States

U.S. Data Department of Commerce data for 1980 (released in the summer of 1981) show that the net book value of all foreign direct investors' equity in, and outstanding loans to their U.S. affiliates increased 20 percent to \$65.5 billion. This continued the pattern of strong growth that had prevailed for several years, including a 28 percent growth in 1979 and 23 percent in 1978. The United States defines foreign affiliates as any company in which a single foreign owner holds 10 percent or more of the voting securities. This is a lower level than the 25 percent foreign ownership minimum used in the MITI survey of foreign firms in Japan presented above.

Unlike 1978 and 1979 when part of the gain was attributed to the depreciation of the dollar—which reduced the foreign-currency cost of acquiring U.S. assets—the dollar was stronger in 1980. Continued fear of protectionism may have been an offsetting factor, and was certainly a factor for some of the Japanese manufacturing investments considered below.

By area, the pattern of investment did not change very much from earlier years, with Japan representing 6 percent of total foreign investments in 1980. This left Japan far behind some of the other major investors in the United States, with affiliates of Dutch firms 25 percent of the total, British firms 17 percent and Canadian firms 15 percent. The amount of Japanese investment was roughly equal to West Germany, and was ahead of France.

Although Japan was a latecomer to the United States compared to these other countries, which could account for its lower investment position, Japan was also outdis-

tanced in terms of additional investment undertaken in 1980, with affiliates of Dutch firms generating 23 percent of total new investment, Canadian affiliates 24 percent, and British firms 14 percent. New investment by affiliates of Japanese companies was 7 percent of total new investment, roughly equal to the Netherlands Antilles, but ahead of France and Switzerland.

At the end of 1980, the net book value of Japanese affiliates in the United States was \$4.2 billion. Relative to total foreign direct investment, the industry distribution of the Japanese presence was highly skewed. Whereas 18.7 percent of total investment was in petroleum, only 1.2 percent of Japanese direct investment was in that sector, reflecting the lack of any large Japan-based oil multinational. While 36.8 percent of total investment was in manufacturing, only 19.8 percent of Japanese investment was in manufacturing, indicating the relative preference of the Japanese for exporting over offshore production. The details of Japanese manufacturing investment are considered below in a special section covering the Japan Economic Institute's annual survey of Japanese-affiliated manufacturing firms.

Other elements of the industry distribution of Japanese investment also show the preference for exports over foreign production. Investment in the trade sector was an enormous 53.4 percent of Japanese direct investment in the United States, compared to only 21 percent for the total of all countries. Contributing to this large share was the presence of the Japanese general trading companies, which have grown in Japan to an extent unknown in other countries. Accompanying the heavy trade investment presence, 17.9 percent of Japanese investment was in finance, compared to only 7.4 percent for all countries. On the other hand, insurance remained relatively undeveloped, representing only 2.0 percent of all Japanese investment, but 7.7 percent of all countries' investment. Of the remaining categories, only 2.6 percent of Japanese investment was in real estate and 3.2 percent in "other".

Turning to net additions to direct investment, Japanese affiliates invested \$726 million in 1980, which brought a 20.8-percent increase in their book value at the end of the year. For all foreign-affiliated firms there was a fairly even split between capital inflow through equity purchase or inter-company accounts (\$4.7 billion) and through reinvested earnings (\$6.2 billion). For Japanese affiliates, however, the picture was quite different. Only \$90 million, or 12.4 percent, came from equity purchases or intercompany accounts, while the remaining \$636 million was from reinvested earnings. The only exception was in manufacturing, where equity was the dominant investment means (\$126 million),

with retained earnings supplying only a minor amount (\$12 million). This probably reflected the small base of Japanese manufacturing investment, so that earnings were too small to provide a significant portion of new investment. Underscoring the general preference of Japanese affiliates for retained earnings for new investment, the ratio of reinvested earnings to total earnings was 0.91 for Japanese affiliates, above the 0.81 level for all foreign affiliates.

The industry composition of the increase in direct investment during 1980 roughly parallels the total investment breakdown for both Japan and the total of all countries. There was a net reduction in Japan's petroleum presence, while manufacturing was 19.0 percent of the increase for Japanese affiliates, trade was 66.7 percent, insurance 3.3 percent and other (including finance) was 25.8 percent. For all countries, the composition was 21.3 percent for petroleum, 29.6 percent in manufacturing, 20.0 percent in trade, 8.2 percent in insurance, and 20.0 percent in "other". The difference between Japan and other countries was approximately the same as that considered above for total book value.

Looking at the profitability of Japanese affiliates, they compare favorably with other countries. The rate of return—defined as total income divided by total book value of investment—was 18.8 percent for Japanese affiliates, compared to 15.6 percent for all countries. In trade sector investments, the relative financial success is more pronounced, with the rate of return for Japanese affiliates 23.3 percent, compared to only 11.0 percent for all countries. The only country that outperformed Japan on an overall basis was Canada, whose affiliates turned in a 21.2 percent average rate of return (but only 6.6 percent in trade sector investments).

A very interesting detail of Japanese affiliates was that their net payment of fees and royalties to the parent company for use of intangible property (patents, production processes, trademarks and copyrights), service charges and rentals. For all countries, there was a net payment to parent companies of \$515 million in 1980, and this pattern held for Canada (\$224 million) and European countries (\$599 million). However, for Japanese affiliates, there was a net receipt of fees and royalties from the Japanese parent firms of \$155 million. This reflects payments received for warranty work performed by the affiliates and training given to executives from the parent. The warranty work stemmed from the heavy Japanese presence in automobiles and consumer electronics, while executive training suggests the use of affiliates as a source of technology and other forms of information gathering.

Japanese Data Overall trends in Japanese foreign direct investment were discussed at

some length in Part IV. Although U.S. data show Japan to be a fairly small share of total foreign investment in the United States, from the Japanese perspective, the United States is its largest single destination for investment. As of March 31, 1981, 26.9 percent of total cumulative Japanese foreign direct investment was in the United States and Canada, reaching a total of \$9.8 billion. The increase for the year was \$1.6 billion, or 11 percent.

Update of the JEI Manufacturing Investment Survey

Despite the depreciation of the yen during the second half of 1981 and the sluggish state of the American economy throughout the year, Japanese corporations continued to invest actively in U.S. production facilities. The 31 companies newly established or acquired during 1981 boosted the yearend tally of Japanese majority-owned manufacturers in the United States to 272 firms. These companies provided employment opportunities for roughly 67,000 American workers, and they created thousands of other jobs through their purchases of goods and services from U.S. suppliers.

Japan's 1981 Investments in U.S. Manufacturing Facilities The second upsurge in Japanese investment in the U.S. manufacturing sector, which dates from 1979, continued unabated in 1981. In fact, a new study by the Japan Economic Institute (JEI) indicated some additional pickup in investment activity. During 1981, 31 companies in which Japanese corporate investors had a majority stake joined the ranks of the 200-plus previously identified American manufacturing concerns owned by businesses in Japan. Twenty of these companies were in operation by the end of the year, while three started production in 1982; the remaining eight firms, with plants under construction at yearend 1981, expected to begin manufacturing later in 1982 or in 1983. In addition to these investments, Japanese corporations acquired minority interests of at least 10 percent but less than 50 percent in seven U.S. businesses during 1981, including shares of two companies on *Fortune's* list of the 1,000 largest American firms.

The 38 American manufacturing companies owned wholly or in part by Japanese investors that were identified in JEI's 1981-update survey conformed with only minor variations to the composite picture of Japan's earlier manufacturing investments in the United States, drawn from the 1980 JEI benchmark study (see Yearbook of U.S.-Japan Economic Relations in 1980). For example, like their predecessors, Japanese corporations establishing a production base in

the United States during 1981 favored new plant construction over the purchase of existing American companies, but acquisitions were relatively more prevalent than in the period through 1980. Instead of being outnumbered two to one by new investments, acquisitions accounted for 17 of the 38 companies added to the rolls of U.S. firms owned wholly or in part by Japanese investors in 1981. Notable among these acquisitions was the purchase by Makino Milling Machine Co., Ltd. of a 51-percent interest in LeBlond Inc., a leading U.S. machine tool builder, and the take-over of a Firestone Tire & Rubber Co. steel cord plant by Tokyo Rope Manufacturing Co., Ltd. and two Japanese trading companies. Also of interest were the majority shares Japanese investors acquired in Harnischfeger Corp., a top manufacturer of construction and mining equipment, and in apparel maker Munsingwear, Inc.

The 38 U.S. manufacturing concerns newly established or acquired by Japanese businesses in 1981 had 56 plants onstream or under construction at yearend, indicating that the majority of them, like most earlier new investments or acquisitions, were manufacturing at a single location. In fact, just four firms had production facilities at more than one site, including two take-over companies that each operated factories at three places and Harnischfeger and Munsingwear, with 16 plants between them. A noteworthy development in this regard, though, was the still small but expanding number of established Japanese-owned companies that were building second or third plants in the United States as they outgrew existing production facilities or expanded into related product lines. Examples of this trend in 1981 were the new factories Hitachi Consumer Products of America Inc., Olympic Wood Products Inc., Ricoh Electronics, Inc. and TNS Mills, Inc. had under construction.

California continued to attract a disproportionate share of Japanese corporations' U.S. manufacturing investment capital during 1981, including both new investments and acquisitions. Fifteen of the 56 plants in operation or under construction at yearend were located in California, with an almost even split between newly built facilities and acquired factories. It was also the site of two of the four plants that established Japanese-affiliated companies were constructing. Washington was also highly successful in drawing Japanese-owned factories, adding four new plants to its total plus an existing firm's second factory. So, too, was Ohio, the location of LeBlond Makino Machine Tool Co. as well as the site of Fujitec Co., Ltd.'s new elevator and escalator plant and two Japanese parts suppliers to Honda Motor Co., Ltd.'s nearly completed car-assembly plant in Marysville. Multiple plant investments or ac-

quisitions in Michigan, Minnesota and New Jersey during the year provided further evidence that, outside of California, Japanese corporate investors in the United States have not shown a marked preference for Sunbelt locations.

One area where the 31 majority-owned companies new to the U.S. manufacturing sector in 1981 differed from earlier arrivals was in employment scale, since they employed or expected to hire when operational smaller work forces on average than their predecessors. Twelve of the 31 have or project a payroll of 49 people or less, while another nine employed between 50 and 99 workers or had targeted employment in that range. In contrast, just two firms—Fujitec and fish processor Caribe Tuna Inc.—pegged employment at the 500-person level, a work force exceeded only by LeBlond Makino with 950 employees. Still, the 23 companies in operation created or saved over 3,000 jobs for American workers. Moreover, another 1,000 or so jobs would be generated when the eight firms with plants under construction started manufacturing, as would an additional 265 positions after the factories being built by the four existing Japanese-affiliated businesses came on line.

The New Tally JEI's benchmark study of U.S. manufacturing companies owned by or affiliated with Japanese investors inadvertently overlooked a number of firms that were in operation at the end of 1980. It also did not cover Japanese ownership of American fish-processing businesses or manufacturing investments in Hawaii and Puerto Rico. These oversights and omissions were corrected in conjunction with the survey of 1981 new investments and acquisitions, yielding a more accurate profile of Japan's expanding manufacturing presence in the United States. A summary of the updated findings follows.

□ Japanese investors had a controlling interest in 272 U.S. manufacturing companies at the end of 1981, including Honda of America Manufacturing, Inc., Nissan Motor Manufacturing Corp. U.S.A. and nine other firms that were still in the plant-construction stage. In addition, Japanese corporations held minority interests in 24 other American manufacturing concerns.

□ The 296 U.S. manufacturing companies owned wholly or in part by Japanese investors had 428 plants in operation or under construction at yearend 1981. California continued to top the state list of plant sites by a wide margin with its 105 Japanese-affiliated factories. Helped by the inclusion of fish-processing facilities, Alaska leapfrogged into the number-two spot, accounting for 34 plants, while New Jersey, the home of 21 manufacturing concerns owned by Japanese corporations, gained a notch on Georgia, the location of 18

Japanese factories. In fifth place was Washington with 17 manufacturing facilities, followed by Illinois, New York and Texas, each of which had attracted 15 plants. Other states that were successful in drawing relatively large numbers of Japanese investors to in-state plant sites were Michigan (13), North Carolina (11), Ohio (10), Pennsylvania (10) and Tennessee (10).

□ Color televisions, stereo equipment, microwave ovens, integrated circuits, telephone equipment, capacitors, bearings and machine tools were among the product lines where Japanese companies had the largest number of U.S. manufacturing facilities. In deciding to supply these products from on-shore plants rather than from factories in Japan, Japanese exporters were swayed in varying degree by the need to cut transportation costs, streamline distribution, maintain closer customer contact and offset the yen's appreciation if they were to boost their U.S. sales volume. Admittedly, though, the bottom line for many producers of these products was the threat of a protectionist backlash or the erection of trade barriers. In other manufacturing lines where Japanese investors were well represented, like fish processing, lumber and wood products, plastic products and certain processed food products, the availability of raw materials, generally at lower prices than in Japan, was the main drawing card. Finally, a small but increasing number of parts suppliers have followed Japanese end users of their products to the United States and also built or acquired on-shore manufacturing facilities.

□ The 261 majority-owned manufacturing companies that were operational at the end of 1981 had an estimated 60,400 people on their payrolls. Moreover, they indirectly generated thousands of other jobs for American workers through their purchases of goods and services from U.S. suppliers. Another 6,500 positions will be added to this total later in 1982 or in 1983 when Honda, Nissan and the other firms with plants under construction go onstream.

Appendix A

Joint Communiqué Between Prime Minister Zenko Suzuki and President Ronald Reagan May 8, 1981

1. At the invitation of the Government of the United States, the Prime Minister and Mrs. Suzuki paid an official visit to the United States from May 4 through 9. Prime Minister Suzuki and President Reagan met in Washington on May 7 and 8 for a comprehensive and fruitful review of the current international situation and Japan-U.S. relationship. They pledged that they would work closely together in pursuit of world peace and prosperity. The Prime Minister and the President, recognizing that the alliance between Japan and the United States is built upon their shared values of democracy and liberty, reaffirmed their solidarity, friendship and mutual trust.

2. The Prime Minister and the President viewed with concern the Soviet military build-up and the Soviet activities in the Third World as seen in its military intervention into Afghanistan and its behavior elsewhere. They reaffirmed their position that the Soviet intervention into Afghanistan cannot be condoned and that the immediate, unconditional and total withdrawal of the Soviet troops should be realized. They restated their view that the problems of Poland should be resolved by the Polish people themselves without any external interference and that any intervention in Poland would have a serious adverse effect on world peace. They shared the view that should intervention in Poland occur, the Western industrialized democracies should cooperate and implement their policies in concert.

3. Affirming their interest in the peace and stability of Asia, the Prime Minister and the President agreed:

- ☐ to continue respectively to expand cooperative relations with the People's Republic of China,
- ☐ to promote the maintenance of peace on the Korean Peninsula as important for peace

and security in East Asia, including Japan, and

- ☐ to continue their cooperation in support of the solidarity of ASEAN and its quest for the greater resilience and development of its members.

The Prime Minister and the President placed high value on the respective role each country is playing in this regard as exemplified recently by the President's decision to maintain U.S. ground forces in Korea and by the Prime Minister's visit to ASEAN countries this January.

They agreed that an early and comprehensive political settlement of the Kampuchean problem, including the withdrawal of foreign forces, through an international conference based on the resolutions of the General Assembly of the United Nations is important for the restoration of a durable peace in Indochina.

4. The Prime Minister and the President affirmed that the maintenance of peace and security in the Middle East, particularly in the Gulf region, is highly important for the peace and security of the entire world. They agreed that the determined efforts of the United States in the face of fragile security conditions in the region contribute to restoring stability, and that many countries, including Japan, are benefiting from them. They also agreed that the process of achieving a comprehensive peace in the Middle East should be further promoted to strengthen the security of the area.

5. In the process of reviewing the international situation, the Prime Minister and the President took note of the presence of various elements of instability in other areas of the world, and particularly with respect to some parts of Africa and Central America, they expressed their concern about the existence of conditions affecting peace and stability.

6. The Prime Minister and the President recognized the role that international efforts toward genuine arms control and disarmament should play in advancing world peace and stability, encouraging restraint and responsibility in international affairs, and promoting the security of the West as a whole.

7. The Prime Minister stated his view that it is important for the industrialized democracies to have a shared recognition of the various political, military and economic problems of the world and to cope with them in a consistent manner in order comprehensively to provide for the security of the West as a whole.

In meeting these international challenges to their peace and security, the Prime Minister and the President recognized that all Western industrialized democracies need to make greater efforts in the areas of defense, world economic improvement, economic cooperation with the Third World, and mutually supportive diplomatic initiatives.

8. The Prime Minister and the President reaffirmed their belief that the Japan-U.S. Treaty of Mutual Cooperation and Security is the foundation of peace and stability in the Far East and the defense of Japan. In insuring peace and stability in the region and the defense of Japan, they acknowledged the desirability of an appropriate division of roles between Japan and the United States. The Prime Minister stated that Japan, on its own initiative and in accordance with its Constitution and basic defense policy, will seek to make even greater efforts for improving its defense capabilities in Japanese territories and in its surrounding sea and air space, and for further alleviating the financial burden of U.S. forces in Japan. The President expressed his understanding of the statement by the Prime Minister. They recognized their common interest in contributing to the defense of Japan, and ex-

pressed the hope for even more fruitful dialogue between the two countries on security matters. In this regard, they looked forward to the scheduled meetings in June on security matters by representatives of the two Governments both at the ministerial and working levels.

9. The Prime Minister and the President agreed upon the importance of the relationship between the industrialized countries and the developing countries. They expressed their hope that constructive progress will be made in dealing with their relations with the countries of the South through various means in particular through the discussions scheduled at Ottawa and in Mexico.

They affirmed that political, economic and social stability of developing countries is indispensable for the maintenance of peace and stability of the world. The Prime Minister stated that the Government of Japan will strive to expand and improve its official development assistance under the New Medium-Term Target and that the Government will strengthen its aid to those areas which are important to the maintenance of peace and stability of the world.

They also stated that they will continue to assist the victims of international instability through their aid to Indochinese, Afghan and African refugees.

10. The Prime Minister and the President discussed various problems facing the world economy. In this connection, they expressed their concern about the rising pressure toward protectionism in many countries and affirmed that Japan and the United States are determined to continue their efforts to maintain and strengthen free and open trade principles embodied in the GATT framework. In this regard, the President expressed his appreciation for the voluntary action taken by the Government of Japan to restrain the export of automobiles to the United States at a time when the United States automobile industry is passing through a difficult adjustment period.

The Prime Minister and the President highly valued the role the Summit Meeting of the Seven Industrialized Nations plays in securing the stability and development of the world economy.

11. The Prime Minister and the President expressed their satisfaction with the close bilateral economic relationship and noted the prospects for a further expansion of these ties. They shared the view that economic issues between the two countries have been and should continue to be given early and mutually satisfactory solutions in the spirit of goodwill and cooperation.

12. The Prime Minister and the President highly valued the report of the Japan-United States Economic Relations Group which con-

tains recommendations that will contribute to the long term development of the Japan-United States economic relations. They agreed that the two governments should address the various recommendations for possible implementation. They also expressed the hope that the recommendations would be studied in such fora as the Japan-U.S. Businessmen's Conference.

They reconfirmed the importance of the dialogue between the two countries through various fora including the Japan-United States sub-cabinet group.

13. The Prime Minister and the President, noting that the energy problem continues to be critical to the healthy development of the world economy, reaffirmed the need for the two countries to make further efforts, together with other industrialized countries, in such fields as increase of energy production, promotion of development and use of alternative energy sources, and conservation of energy.

14. The Prime Minister and the President, in recognition of vital importance of preventing nuclear weapons proliferation, reaffirmed the need to continue to promote international efforts to this end. They shared the view, on the other hand, that the role of nuclear energy ought to be further expanded under appropriate safeguards to meet the increasing energy needs of the world and that Japan and the United States have special responsibility to cooperate further in promoting the peaceful uses of nuclear energy. In this connection, the President endorsed the view of the Prime Minister that reprocessing is of particular importance to Japan. The Prime Minister and the President thus agreed that the two governments should promptly start consultations with a view to working out a permanent solution at an early date on such pending issues as the continued operation of the Tokai Reprocessing Facility and the construction of an additional reprocessing plant in Japan.

15. Underscoring their belief that cultural exchange is an important element in fostering mutual understanding and friendship, the President welcomed the announcement of the Prime Minister that the Government of Japan has made a financial contribution to the Japan-U.S. Friendship Commission and that it has announced its intention to give substantial financial assistance respectively to the Japan Society of New York and, in a continuing manner, to the Special Japan-U.S. Exchange Program of "Youth for Understanding" which is to commence next fiscal year.

16. The Prime Minister extended an invitation to the President to visit Japan. The President thanked the Prime Minister for his gracious invitation, and said he hoped to visit Japan at a mutually convenient time.

Appendix B

Statistical Tables

Table 1: Japan's Gross National Product at 1975 Constant Prices, 1977-1981

(in billions of yen, seasonally adjusted, quarterly totals at annual rates)

	1977	1978	1979	1980	1981
Gross National Product	¥163,751.7 (5.3%)	¥172,133.4 (5.1%)	¥181,136.8 (5.2%)	¥188,733.6 (4.2%)	¥194,218.4 (2.9%)
Personal Consumption Spending	90,693.4 (3.8%)	94,967.8 (4.7%)	100,606.3 (5.9%)	101,238.4 (0.6%)	101,889.8 (0.6%)
Private Residential Construction	11,548.6 (1.7%)	12,309.0 (6.6%)	12,180.6 (-1.0%)	11,011.8 (-9.6%)	10,897.8 (-1.0%)
Private Fixed Nonresidential Investment	24,943.1 (2.5%)	26,597.2 (6.6%)	29,738.8 (11.8%)	31,678.7 (6.5%)	32,192.8 (1.6%)
Change in Business Inventories	816.3 (0.3%)	548.4 (-32.8%)	1,694.6 (209.0%)	2,073.6 (22.4%)	1,062.0 (-48.8%)
Government Current Expenditures	15,878.2 (3.9%)	16,680.4 (5.1%)	17,391.9 (4.3%)	17,783.3 (2.3%)	18,417.0 (3.6%)
Government Fixed Investment	15,365.5 (11.6%)	17,841.8 (16.1%)	18,403.2 (3.1%)	17,750.9 (-3.5%)	18,603.1 (4.8%)
Change in Government Inventories	336.9 (42.2%)	417.3 (23.9%)	114.9 (-72.5%)	-228.5 (*)	-290.1 (*)
Net External Sector	4,169.6 (79.5%)	2,771.5 (-33.5%)	1,006.4 (-63.7%)	7,425.1 (637.8%)	11,446.0 (54.2%)
Exports of Goods and Services and Factor Income Received	26,596.2 (11.4%)	26,649.5 (0.2%)	28,396.4 (6.6%)	33,710.1 (18.7%)	39,231.0 (16.4%)
Imports of Goods and Services and Factor Income Paid	22,426.6 (4.1%)	23,878.0 (6.5%)	27,390.0 (14.7%)	26,285.0 (-4.0%)	27,785.0 (5.7%)

(continued)

Table 1: Japan's Gross National Product at 1975 Constant Prices, 1977-1981 (continued)

(in billions of yen, seasonally adjusted, quarterly totals at annual rates)

	January- March 1980	April-June 1980	July- September 1980	October- December 1980	January- March 1981	April-June 1981	July- September 1981	October- December 1981
Gross National Product	¥186,837.3 (6.7%)	¥187,267.7 (0.9%)	¥189,465.7 (4.8%)	¥190,811.2 (2.9%)	¥192,224.6 (3.0%)	¥194,485.1 (4.8%)	¥195,933.2 (3.0%)	¥194,202.3 (-3.5%)
Personal Consumption Spending	101,465.1 (2.4%)	101,317.2 (-0.6%)	101,137.6 (-0.7%)	101,290.5 (0.6%)	101,539.2 (1.0%)	101,814.4 (1.1%)	101,932.6 (0.5%)	102,478.0 (2.2%)
Private Residential Construction	11,336.2 (-13.8%)	11,570.0 (8.5%)	10,668.6 (-7.8%)	10,454.2 (10.2%)	10,710.2 (10.2%)	11,369.5 (27.0%)	10,876.1 (-16.3%)	10,563.8 (-11.0%)
Private Fixed Nonresidential Investment	30,999.7 (7.5%)	31,583.8 (7.8%)	31,931.6 (4.5%)	32,158.7 (2.9%)	32,123.7 (-0.4%)	32,108.9 (-0.2%)	32,037.3 (-0.9%)	32,473.6 (5.6%)
Change in Business Inventories	2,307.1 (94.3%)	2,244.7 (-10.4%)	2,002.7 (-36.6%)	1,745.5 (-42.3%)	1,213.3 (-76.7%)	817.6 (-79.4%)	761.6 (-24.7%)	1,455.6 (1,234.3%)
Government Current Expenditures	17,753.6 (9.4%)	17,646.6 (-2.4%)	17,714.6 (1.6%)	18,024.0 (7.2%)	18,494.5 (10.9%)	18,247.4 (-5.2%)	18,330.4 (1.8%)	18,595.3 (5.9%)
Government Fixed Investment	17,324.4 (26.2%)	16,741.7 (-12.8%)	17,607.5 (22.3%)	18,719.2 (27.7%)	18,346.3 (-7.7%)	18,454.6 (2.4%)	18,875.3 (9.4%)	18,724.3 (-3.2%)
Change in Government Inventories	54.6 (*)	187.8 (14,502.1%)	-96.2 (*)	-1,053.6 (*)	15.9 (*)	-7.5 (*)	-261.0 (*)	-883.0 (*)
Net External Sector	5,596.7 (1,490.5%)	7,499.2 (222.4%)	8,499.2 (65.0%)	9,472.7 (54.3%)	9,781.6 (13.7%)	11,680.2 (103.3%)	13,380.9 (72.2%)	10,794.7 (-57.6%)
Exports of Goods and Services and Factor Income Received	32,241.2 (22.6%)	33,396.9 (15.1%)	34,112.2 (8.8%)	35,001.4 (10.8%)	36,371.5 (16.6%)	39,273.2 (35.9%)	41,560.0 (25.4%)	39,709.6 (-16.7%)
Imports of Goods and Services and Factor Income Paid	26,644.5 (-16.1%)	27,423.0 (12.2%)	25,613.0 (-23.9%)	25,528.7 (-1.3%)	26,589.9 (17.7%)	27,593.0 (16.0%)	28,179.1 (8.8%)	28,914.9 (10.9%)

*Cannot be calculated.

Source: Economic Planning Agency

Table 2: Major Interest Rates in Japan, 1977-1981

(percent per annum)

	Central Bank Discount Rate*	Short-Term Prime Lending Rate*	Call Rate**	Average Interest Rate on Loans and Discounts of All Banks*	Savings Deposits*			
					Commercial Banks		Post Office	
					Ordinary Deposits	Six-Month Time Deposits	Ordinary Deposits	One-Year Savings Certificates
1977	4.25%	4.5%	5.68%	6.81%	1.5%	4.5%	2.88%	3.75%
1978	3.5	3.75	4.36	5.94	1.0	3.75	2.4	3.0
1979	6.25	6.5	5.86	7.06	2.0	5.25	3.36	4.5
1980	7.25	7.5	10.93	8.27	2.75	6.25	4.08	5.5
1981	5.5	6.0	7.43	7.56	2.25	5.5	3.6	4.75
1980 January	6.25	6.5	8.06	7.18	2.00	5.25	3.36	4.5
February	7.25	7.5	8.74	7.32	2.00	5.25	3.36	4.5
March	9.00	9.25	10.73	7.76	2.75	6.25	4.08	5.5
April	9.00	9.25	12.21	8.22	3.25	7.25	4.56	6.5
May	9.00	9.25	12.56	8.61	3.25	7.25	4.56	6.5
June	9.00	9.25	12.64	8.82	3.25	7.25	4.56	6.5
July	9.00	9.25	12.70	8.89	3.25	7.25	4.56	6.5
August	8.25	8.5	12.09	8.88	3.25	7.25	4.56	6.5
September	8.25	8.5	11.40	8.74	3.25	7.25	4.56	6.5
October	8.25	8.5	11.04	8.66	3.25	7.25	4.56	6.5
November	7.25	7.5	9.50	8.53	3.25	7.25	4.56	6.5
December	7.25	7.5	9.49	8.27	2.75	6.25	4.08	5.5
1981 January	7.25	7.5	8.91	8.14	2.75	6.25	4.08	5.5
February	7.25	7.5	8.60	8.09	2.75	6.25	4.08	5.5
March	6.25	6.75	8.04	8.02	2.75	6.25	4.08	5.5
April	6.25	6.75	7.19	7.90	2.25	5.5	3.6	4.75
May	6.25	6.75	7.06	7.79	2.25	5.5	3.6	4.75
June	6.25	6.75	7.12	7.70	2.25	5.5	3.6	4.75
July	6.25	6.75	7.26	7.67	2.25	5.5	3.6	4.75
August	6.25	6.75	7.24	7.65	2.25	5.5	3.6	4.75
September	6.25	6.75	7.26	7.64	2.25	5.5	3.6	4.75
October	6.25	6.75	7.05	7.64	2.25	5.5	3.6	4.75
November	6.25	6.75	6.80	7.63	2.25	5.5	3.6	4.75
December	5.5	6.0	6.70	7.56	2.25	5.5	3.6	4.75

*End of period

**Average for period

Source: Bank of Japan

Table 3: Money Supply in Japan, 1977-1981

(in billions of yen at end of period)

	<u>Outstanding Money Supply (M₂ + CDs)*</u>	<u>Change Over Year-Earlier Period</u>
1977	¥158,033	11.1%
1978	178,720	13.1
1979	195,013	9.1
1980	208,986	7.2
1981	232,042	11.0
1980 January	190,033	10.1
February	190,956	10.2
March	194,735	9.7
April	198,030	9.0
May	196,899	9.1
June	200,250	8.5
July	198,973	8.0
August	200,767	8.9
September	199,238	6.1
October	198,972	7.2
November	204,781	8.5
December	208,986	7.2
1981 January	203,756	7.2
February	205,005	7.4
March	208,097	6.6
April	212,114	7.1
May	216,326	9.9
June	217,792	8.8
July	217,770	9.4
August	217,886	8.5
September	219,201	10.0
October	220,312	10.7
November	224,106	9.4
December	232,042	11.0

*Includes currency in circulation, demand deposits and time deposits (excluding trust accounts) held by commercial banks, plus certificates of deposit.

Source: Bank of Japan

Table 4: Japan's Industrial Production Index by Sector, 1977-1981

(1975 = 100)

		Total									
		Change Over				Iron		Fabricated			
		Year-Earlier				and		Metal		Nonelectric	
		Index	Period	Mining	Manufacturing	Steel	Nonferrous	Products	Machinery	Electric	Machinery
1977		115.7	4.1%	103.1	115.7	108.1	125.0	124.9	116.8	136.5	
1978		122.9	6.2	105.7	123.0	110.1	135.0	135.4	126.0	155.2	
1979		133.1	8.3	101.0	133.3	122.6	142.8	137.6	143.7	177.2	
1980		142.4	7.0	99.6	142.7	124.8	143.5	132.3	159.6	212.2	
1981		146.8	3.1	96.2	147.2	117.4	138.9	124.7	162.4	255.9	
1980	January	126.1	9.6	97.3	126.3	124.3	139.6	120.3	134.5	165.1	
	February	140.4	14.1	103.1	140.7	124.3	150.2	135.8	155.9	196.2	
	March	150.8	10.4	107.5	151.1	129.6	155.8	145.0	183.6	219.9	
	April	146.8	11.6	102.1	147.1	128.9	154.1	142.2	164.4	205.7	
	May	141.0	8.4	100.2	141.3	130.8	149.3	135.5	156.2	197.1	
	June	145.4	7.3	97.2	145.7	127.3	149.3	138.8	164.8	215.9	
	July	146.0	6.6	97.5	146.3	126.0	148.6	137.2	160.7	218.8	
	August	130.9	1.2	88.3	131.2	118.4	127.2	121.4	147.2	202.1	
	September	146.2	5.9	96.3	146.6	122.8	137.0	128.3	169.7	239.9	
	October	145.0	4.6	100.7	145.3	126.3	141.5	130.4	163.5	222.5	
	November	142.6	1.8	99.6	142.9	120.0	134.3	126.4	157.2	227.3	
	December	147.4	3.8	105.4	147.7	118.6	134.7	125.8	157.4	235.9	
1981	January	130.4	3.4	96.2	130.6	113.7	126.8	110.3	145.4	200.4	
	February	139.9	-0.4	97.8	140.2	110.8	132.4	118.2	156.6	230.6	
	March	152.8	1.3	103.5	153.1	117.1	141.5	128.5	177.7	256.4	
	April	147.3	0.3	97.3	147.7	116.7	143.3	127.7	163.5	237.7	
	May	140.4	-0.4	95.5	140.8	117.2	137.4	116.4	156.3	228.9	
	June	149.2	2.6	94.4	149.6	116.4	144.9	127.1	164.5	258.9	
	July	151.1	3.5	94.5	151.5	117.8	143.1	124.4	168.0	261.9	
	August	137.1	4.7	87.3	137.5	116.0	129.2	121.9	153.2	243.0	
	September	153.8	5.2	96.6	154.2	118.5	142.5	129.8	170.9	293.4	
	October	153.4	5.8	97.1	153.8	123.1	144.1	133.3	165.8	283.5	
	November	152.3	6.8	94.7	152.7	120.8	141.9	130.4	162.8	289.6	
	December	153.8	4.3	99.6	154.2	120.1	139.7	128.1	163.7	286.2	

(continued)

Table 4: Japan's Industrial Production Index by Sector, 1977-1981 (continued)

(1975 = 100)

	Transport Equipment	Precision Instruments	Nonmetallic Mineral Products	Chemicals	Petroleum and Coal Products	Pulp, Paper and Paper Products	Textiles	Lumber and Wood Products	Foods
1977	106.2	165.8	115.2	117.2	104.7	115.3	106.7	104.4	104.6
1978	106.8	192.0	121.0	131.3	104.0	120.8	107.7	107.0	106.2
1979	111.1	251.1	128.9	143.1	106.5	130.6	108.5	109.1	108.9
1980	131.3	342.4	132.3	144.2	101.2	131.0	107.1	100.7	107.5
1981	137.4	399.9	124.1	144.9	95.3	123.1	105.3	91.7	108.2
1980 January	110.6	283.5	121.7	141.2	111.7	129.4	98.9	96.2	87.0
February	127.9	295.4	133.1	151.6	107.2	134.0	108.1	105.8	105.1
March	134.0	317.4	141.3	149.5	112.3	143.6	111.5	109.9	109.4
April	135.5	289.5	136.6	152.4	104.6	138.6	114.1	111.1	118.6
May	127.9	303.6	134.9	150.5	100.8	136.5	111.7	105.8	100.3
June	138.0	341.4	133.6	148.2	85.7	136.3	111.7	102.0	105.9
July	145.9	352.8	134.6	145.0	96.7	131.1	110.2	103.3	105.2
August	109.1	335.0	123.7	133.1	95.9	123.9	99.8	91.8	95.9
September	142.2	394.7	127.8	137.9	92.0	124.2	104.8	95.8	106.5
October	138.9	383.1	134.6	137.6	96.5	128.4	105.2	96.3	111.2
November	130.1	387.5	132.3	137.6	100.2	124.5	103.8	95.0	112.4
December	135.0	425.3	132.9	146.6	111.3	122.0	105.0	95.4	131.8
1981 January	126.0	360.7	116.3	135.4	105.1	114.5	95.4	82.5	83.0
February	134.6	406.6	121.3	137.7	99.4	116.9	104.6	88.3	95.1
March	147.2	466.5	127.6	144.3	109.8	124.5	108.3	94.6	111.8
April	141.5	419.0	123.9	142.3	99.2	122.3	111.2	97.4	117.2
May	131.9	412.8	122.4	136.6	91.2	121.1	106.7	94.2	103.2
June	143.0	434.2	125.6	146.6	85.1	125.5	109.8	95.5	106.3
July	151.5	427.5	125.7	146.6	90.2	123.9	107.6	94.6	110.4
August	112.9	347.2	117.2	141.1	89.6	119.8	99.1	85.4	103.7
September	145.3	390.4	124.8	152.0	87.6	124.8	104.2	91.3	109.0
October	142.4	372.6	127.9	151.8	90.9	128.6	106.3	94.1	111.6
November	137.5	376.2	128.3	149.6	93.2	128.2	105.1	90.4	114.5
December	135.0	384.6	128.0	154.5	102.8	126.7	105.0	92.2	132.1

Source: Ministry of International Trade and Industry

Table 5: Japan's Index of Industrial Production by End-Use Classification, 1977-1981

(1975 = 100)

		Final Demand Goods				Producer Goods
		Total	Capital Goods	Construction Materials	Consumer Goods Durable Nondurable	
1977		115.9	112.1	110.0	142.4 111.5	115.3
1978		125.0	121.7	115.7	160.4 117.3	119.9
1979		135.7	133.8	123.8	184.5 121.1	129.4
1980		148.0	150.7	120.6	225.1 122.8	134.6
1981		155.9	157.3	109.8	268.2 126.3	134.1
1980	January	125.2	125.7	114.3	177.4 105.0	127.4
	February	144.6	146.3	127.0	207.7 121.4	134.7
	March	158.3	172.5	135.4	215.1 125.2	140.4
	April	151.5	150.2	130.5	220.6 131.4	140.4
	May	143.4	141.4	124.2	217.5 120.7	137.8
	June	150.9	151.1	122.5	237.4 123.5	137.8
	July	152.1	155.9	121.2	235.2 124.4	137.6
	August	135.1	138.2	110.2	200.7 113.5	125.1
	September	157.1	170.3	114.4	244.9 122.2	131.0
	October	152.4	154.5	117.4	244.0 125.3	134.8
	November	148.7	149.1	115.0	244.9 124.4	132.6
	December	155.9	152.3	114.6	256.0 136.0	135.7
1981	January	134.2	138.7	100.4	217.1 107.6	125.0
	February	147.5	150.7	106.4	249.4 117.6	129.4
	March	164.8	176.2	112.7	269.3 129.6	136.1
	April	155.4	152.5	110.1	269.0 130.3	136.1
	May	147.2	145.7	104.5	255.8 120.9	131.1
	June	159.0	156.1	110.8	288.6 127.6	135.7
	July	161.4	163.6	112.1	282.7 128.2	136.8
	August	143.8	146.7	105.0	233.7 119.1	127.8
	September	166.9	177.0	112.7	281.4 129.7	135.5
	October	163.4	160.7	115.8	292.1 131.9	139.4
	November	162.5	159.0	113.4	294.0 131.7	138.2
	December	165.0	161.1	113.9	285.2 141.5	138.4

Source: Ministry of International Trade and Industry

Table 6: Japan's Index of Producers' Inventories of Finished Goods, 1977-1981

(1975 = 100)

		Total	Mining	Manufacturing	Iron and Steel	Nonferrous Metals	Fabricated Metal Products	Nonelectric Machinery	Electric Machinery
1977		104.8	87.6	104.8	115.6	88.3	118.9	100.3	103.6
1978		103.0	119.0	102.9	105.6	78.8	120.9	93.5	101.5
1979		102.8	149.6	102.7	101.5	70.4	144.2	98.7	108.9
1980		110.5	134.2	110.4	102.2	65.8	154.0	121.5	121.9
1981		114.4	115.3	114.4	106.2	77.2	132.1	133.0	130.6
1980	January	108.2	142.9	108.2	100.7	66.2	136.0	114.5	119.6
	February	109.2	143.4	109.2	99.1	64.7	152.0	119.4	122.4
	March	105.9	140.9	105.8	96.8	59.3	159.5	115.7	117.2
	April	104.7	140.9	104.7	98.3	59.2	161.9	118.0	118.6
	May	107.4	139.5	107.3	101.9	60.3	162.4	118.1	115.8
	June	109.1	132.7	109.1	103.0	61.2	167.3	118.5	113.2
	July	111.8	130.5	111.8	101.8	63.0	173.5	119.1	115.1
	August	112.0	120.9	112.0	104.7	67.3	168.1	117.6	119.4
	September	112.4	128.7	112.3	104.4	69.0	152.4	119.8	127.8
	October	114.8	134.0	114.7	105.3	70.8	145.0	128.4	130.9
	November	116.2	129.1	116.2	104.7	72.5	135.3	132.7	133.5
	December	113.8	126.2	113.8	105.8	76.0	132.0	135.5	129.5
1981	January	116.6	127.6	116.6	107.4	76.2	130.3	139.4	132.5
	February	117.4	119.9	117.4	107.3	74.8	134.7	139.9	136.4
	March	114.5	104.8	114.5	105.5	74.8	139.0	132.3	127.6
	April	114.3	109.1	114.3	105.8	75.2	141.5	131.7	129.4
	May	114.0	115.5	114.0	105.6	75.9	143.2	130.5	125.3
	June	115.6	119.3	115.5	106.2	77.9	146.8	132.7	129.2
	July	115.2	122.8	115.2	104.1	76.7	145.6	134.6	126.8
	August	112.3	122.6	112.3	106.8	77.0	141.6	127.9	123.1
	September	111.8	118.3	111.8	106.8	79.8	123.4	126.8	126.2
	October	113.7	112.6	113.7	106.6	79.0	120.3	129.8	134.3
	November	114.9	108.7	114.9	108.2	78.9	110.5	132.5	137.0
	December	112.3	102.7	112.3	103.9	79.7	108.6	138.4	139.0

(continued)

Table 6: Japan's Index of Producers' Inventories of Finished Goods, 1977-1981 (continued)

(1975 = 100)

	Transport Equipment	Precision Instruments	Nonmetallic Mineral Products	Chemicals	Petroleum and Coal Products	Pulp, Paper and Paper Products	Textiles	Lumber and Wood Products	Foods
1977	116.0	124.5	91.4	101.3	113.2	100.0	100.9	92.2	91.0
1978	120.2	161.0	89.7	100.7	118.8	101.7	90.9	89.4	89.6
1979	117.5	184.4	92.3	101.1	115.4	87.1	87.0	81.6	94.4
1980	125.1	259.0	99.4	113.5	119.0	100.7	90.6	88.6	92.9
1981	137.4	322.6	106.8	112.7	108.3	116.8	90.0	93.9	90.4
1980 January	136.8	234.4	96.2	110.3	121.9	82.5	89.9	77.1	88.9
February	134.5	253.9	95.1	113.1	113.2	81.3	90.5	76.9	92.6
March	109.9	257.6	94.3	107.6	107.0	83.0	88.4	80.8	97.6
April	113.7	238.2	94.2	108.0	113.6	82.7	85.9	83.8	97.8
May	110.1	247.2	97.1	112.5	118.4	86.0	86.7	86.8	96.3
June	111.8	268.0	99.3	116.0	116.0	94.6	89.2	89.4	100.5
July	117.5	266.6	100.8	117.4	120.2	103.4	94.1	93.4	100.4
August	106.9	269.0	103.6	121.4	127.3	111.8	94.0	95.5	93.6
September	119.9	260.5	102.3	118.3	126.0	116.6	91.7	96.1	85.4
October	140.2	255.4	102.5	114.3	123.8	120.2	91.3	93.5	90.3
November	150.8	270.5	103.6	112.1	125.6	122.6	92.6	93.2	94.7
December	149.1	286.2	103.8	110.5	115.2	123.7	92.8	96.0	77.4
1981 January	158.6	279.2	106.2	116.2	110.7	126.1	92.9	97.5	87.9
February	150.8	293.7	106.9	120.0	104.7	127.5	93.3	101.8	85.1
March	130.1	306.0	106.3	115.8	104.8	126.2	91.0	101.4	89.2
April	125.6	305.2	107.2	112.9	107.3	124.8	89.4	99.4	91.3
May	120.9	326.6	109.2	112.4	115.4	122.1	89.6	99.3	96.8
June	126.8	344.8	109.2	112.5	112.1	122.1	91.6	98.5	94.1
July	134.1	348.1	107.9	111.1	104.1	118.5	93.7	98.2	91.8
August	122.6	336.4	108.0	113.8	105.4	116.3	91.2	92.7	95.3
September	130.8	328.8	106.7	112.4	111.2	109.5	87.0	88.6	88.3
October	143.0	329.6	106.0	108.3	112.9	104.8	85.4	86.0	90.9
November	151.2	335.6	105.0	108.1	112.3	103.0	87.0	83.0	96.6
December	154.8	337.6	102.8	109.4	98.2	100.9	87.5	81.0	76.9

Source: Ministry of International Trade and Industry

Table 7: Japan's Index of Consumption of Materials, 1977-1981

(1975 = 100)

	Total	Domestic		Imported	
		Raw Materials	Semifinished Goods	Raw Materials	Semifinished Goods
1977	111.9	107.6	114.8	103.9	126.1
1978	115.5	114.1	119.7	101.3	149.7
1979	124.2	124.2	130.0	105.9	162.1
1980	127.3	122.8	136.4	102.0	165.9
1981	122.0	114.9	133.3	94.3	153.9
1980 January	124.4	122.4	129.2	111.4	161.3
February	130.5	128.7	138.7	106.2	170.3
March	133.6	133.5	141.2	109.7	181.9
April	133.3	132.2	142.6	105.8	181.1
May	131.0	128.9	139.9	105.0	179.4
June	129.3	125.8	142.0	89.5	178.1
July	130.8	123.7	141.7	100.5	169.7
August	116.6	111.5	123.9	97.4	150.2
September	123.2	119.1	133.9	92.5	154.2
October	126.1	121.2	136.4	97.7	160.1
November	123.7	113.6	133.0	101.8	155.2
December	125.1	113.2	133.8	106.7	148.8
1981 January	116.7	105.0	124.1	101.6	144.7
February	119.2	107.4	128.7	97.7	148.6
March	125.7	114.7	135.0	106.0	152.9
April	124.7	114.6	135.4	101.1	156.7
May	118.9	112.4	129.7	91.7	155.6
June	122.5	117.0	136.6	83.5	159.2
July	124.7	119.3	137.9	90.2	156.1
August	113.8	109.4	124.1	87.5	147.3
September	122.2	117.2	136.0	85.0	152.2
October	126.0	124.3	138.9	92.3	159.4
November	124.6	120.7	136.6	94.5	159.1
December	125.2	117.3	136.1	100.7	155.5

Source: Ministry of International Trade and Industry

Table 8: Japan's Index of Inventories of Materials, 1977-1981

(1975 = 100)

	Total	Domestic		Imported	
		Raw Materials	Semifinished Goods	Raw Materials	Semifinished Goods
1977	110.3	153.5	104.3	108.0	106.1
1978	109.0	166.6	99.0	107.3	131.2
1979	108.0	138.5	103.0	101.2	180.1
1980	111.0	110.8	108.0	106.5	222.9
1981	112.2	112.8	108.2	109.1	235.4
1980 January	108.4	117.1	105.5	103.0	193.3
February	106.5	110.3	106.7	96.5	201.1
March	106.2	105.4	106.6	97.2	200.9
April	108.2	100.9	109.0	100.2	205.5
May	110.0	95.8	111.0	102.5	223.9
June	112.7	99.9	111.4	108.4	229.6
July	113.5	107.2	109.3	112.8	224.3
August	112.8	112.5	107.5	111.9	231.4
September	113.1	116.7	106.5	112.6	239.1
October	113.0	122.9	106.2	111.0	238.9
November	113.8	120.9	107.6	111.7	240.5
December	113.8	120.4	108.2	110.3	245.6
1981 January	112.3	120.1	107.8	107.4	235.2
February	110.9	115.6	107.3	105.1	237.9
March	108.4	108.9	106.0	102.0	228.4
April	110.8	109.2	106.2	108.7	236.9
May	113.1	106.9	109.1	111.9	234.2
June	113.8	110.9	108.7	113.3	238.0
July	113.7	113.6	108.3	112.2	246.7
August	114.0	113.8	109.0	112.2	246.6
September	112.3	113.3	108.4	109.2	234.3
October	112.7	117.7	108.3	109.2	235.5
November	112.6	112.7	109.2	109.7	227.4
December	112.1	111.4	109.6	108.3	224.1

Source: Ministry of International Trade and Industry

Table 9: Japan's Index of Manufacturing Operating Rates, 1977-1981

(1975 = 100)

	Total	Iron and Steel	Nonferrous Metals	Fabricated Metal Products	Nonelectric Machinery	Electric Machinery
1977	107.5	93.9	120.7	99.0	105.3	121.3
1978	110.7	90.7	131.6	102.7	112.5	125.9
1979	118.7	98.8	139.3	105.6	128.5	133.2
1980	119.5	98.8	131.2	111.0	133.3	129.1
1981	114.0	89.7	124.2	106.6	135.3	119.9
1980 January	113.0	100.8	131.7	96.8	117.2	112.3
February	123.4	98.8	140.6	116.9	134.9	138.6
March	127.0	103.6	146.5	132.6	143.7	138.0
April	126.3	103.5	143.7	120.3	139.3	144.1
May	121.2	105.7	138.7	104.0	128.6	133.5
June	124.3	101.0	137.0	114.1	139.6	144.0
July	122.0	101.3	133.4	109.4	136.2	130.1
August	108.0	94.9	115.8	109.9	123.9	108.2
September	118.2	96.3	121.0	111.0	140.3	122.0
October	117.4	98.1	125.4	104.3	130.5	124.1
November	115.7	91.2	119.3	107.5	130.5	127.4
December	117.9	90.4	120.8	105.9	134.7	126.2
1981 January	107.2	88.6	114.3	95.5	123.1	103.1
February	113.4	83.2	117.9	113.7	136.6	121.1
March	119.9	89.1	126.4	122.6	144.8	124.7
April	117.4	88.9	127.7	112.9	133.8	129.3
May	111.0	90.2	124.9	90.0	128.6	119.4
June	117.1	88.6	130.4	109.4	138.0	130.3
July	116.7	92.0	126.7	108.2	139.6	120.9
August	103.7	91.2	118.1	97.5	125.7	100.1
September	114.4	89.3	127.3	110.9	141.5	112.6
October	116.2	94.4	127.6	107.7	138.2	125.7
November	115.2	90.5	125.5	107.0	134.8	127.1
December	115.5	90.8	123.8	103.6	137.0	123.2

(continued)

Table 9: Japan's Index of Manufacturing Operating Rates, 1977-1981 (continued)

(1975 = 100)

	Transport Equipment	Precision Instruments	Nonmetallic Mineral Products	Chemicals	Petroleum and Coal Products	Pulp, Paper and Paper Products	Textiles
1977	111.6	122.5	107.0	102.5	100.1	110.2	103.0
1978	115.0	118.4	113.2	108.6	98.3	113.6	103.7
1979	119.1	131.2	117.5	120.0	101.3	120.1	109.0
1980	134.2	146.6	118.0	111.6	95.2	119.8	109.0
1981	131.4	141.9	108.2	102.9	87.1	111.8	107.2
1980 January	114.5	136.5	109.6	122.6	108.6	119.9	106.7
February	133.4	135.4	120.2	124.1	101.4	122.0	109.8
March	136.2	143.3	132.6	119.0	103.8	131.4	110.4
April	140.8	131.2	117.9	121.4	99.4	125.2	111.2
May	132.9	133.8	117.6	120.4	98.1	125.5	109.6
June	143.0	148.8	116.1	115.1	77.7	125.6	110.8
July	150.4	150.4	117.8	108.1	92.7	120.0	109.8
August	107.2	141.2	107.9	98.6	91.6	115.1	105.5
September	147.1	165.0	113.5	98.8	84.4	113.1	108.6
October	143.3	159.6	119.9	98.9	88.6	115.2	109.0
November	129.2	151.5	118.9	101.3	95.6	112.4	107.8
December	133.6	164.6	123.9	110.1	101.7	111.3	108.5
1981 January	121.7	133.9	100.5	102.5	97.5	107.8	105.3
February	127.6	145.1	105.2	100.6	92.7	107.4	108.1
March	142.3	166.1	112.0	102.8	101.6	113.9	108.3
April	140.4	144.7	99.5	105.1	95.4	109.8	109.3
May	126.9	141.2	98.8	101.2	84.3	109.7	106.5
June	141.1	151.2	103.3	104.6	73.6	113.3	107.6
July	143.2	149.4	109.3	103.6	81.6	112.2	107.3
August	100.1	123.9	106.4	100.7	79.9	109.8	103.6
September	139.1	144.0	114.5	101.7	74.9	112.9	106.6
October	135.1	134.2	114.0	101.7	83.4	113.9	108.0
November	131.7	132.8	115.2	101.7	87.0	115.6	107.9
December	128.6	136.0	118.5	108.5	93.8	115.3	108.1

Source: Ministry of International Trade and Industry

Table 10: Residential Construction Starts in Japan by Funding Source, 1977-1981

(units)

	Total	Owner-Built		Developer-Built		Built for Sale by Housing Corporation	Private Rental		Public Rental	
		Private Funds	Housing Loan Corporation	Private Funds	Housing Loan Corporation		Private Funds	Housing Loan Corporation	Local Governments	Housing Corporation
1977	1,508,260	459,838	217,373	297,564	44,467	10,740	303,922	36,867	71,335	26,049
1978	1,549,362	375,223	352,597	270,574	65,906	8,157	289,949	46,805	73,598	22,287
1979	1,493,023	353,899	343,541	244,199	88,394	14,160	274,633	46,512	66,006	20,862
1980	1,268,626	301,721	293,011	213,549	95,562	12,128	197,704	35,811	62,081	17,710
1981	1,151,699	259,778	290,656	157,857	85,951	21,121	186,925	33,139	62,432	16,035
1980 January	89,500	18,235	16,827	16,151	7,341	822	18,307	3,663	3,776	1,770
February	94,500	27,100	14,558	18,444	6,277	160	18,321	3,187	2,163	1,433
March	123,272	33,253	30,604	18,539	8,181	1,469	17,930	4,852	4,437	1,248
April	139,877	36,522	39,936	22,442	8,104	1,696	18,793	2,890	3,758	1,737
May	106,126	31,050	21,167	17,083	5,686	1,260	18,160	2,408	4,093	1,732
June	116,597	27,732	29,267	18,539	7,855	2,357	17,739	2,713	5,505	2,051
July	116,588	25,218	33,401	18,423	9,842	1,196	14,890	2,108	6,400	1,470
August	102,929	21,747	23,862	18,496	9,012	800	13,290	2,178	8,704	1,066
September	97,386	20,441	21,241	16,244	9,425	305	14,093	2,987	7,959	942
October	94,113	21,140	18,928	16,612	8,826	256	14,720	3,122	5,947	1,644
November	88,438	19,747	19,144	15,018	6,851	662	14,898	2,753	4,421	1,745
December	99,300	19,536	24,076	17,558	8,162	1,145	16,563	2,950	4,918	872
1981 January	67,717	13,501	16,886	11,980	5,815	489	10,747	2,093	2,633	1,155
February	87,611	20,819	19,801	11,903	6,931	4,416	13,127	2,404	3,587	735
March	97,177	23,968	26,280	13,195	8,041	1,577	12,577	3,135	4,069	1,721
April	119,576	27,975	31,102	17,911	8,915	1,933	16,967	3,569	5,557	2,001
May	119,272	26,819	24,939	20,252	7,855	2,515	20,659	2,961	6,940	2,098
June	108,925	24,794	30,211	13,519	6,638	2,894	16,739	1,735	6,976	2,332
July	97,192	22,515	30,351	9,734	6,619	2,773	14,049	1,124	6,593	499
August	93,100	20,961	24,271	11,924	7,361	1,485	14,760	1,522	6,586	1,124
September	92,009	19,560	22,556	12,078	6,022	797	16,358	3,332	6,461	1,557
October	87,971	20,720	19,537	11,710	5,923	288	16,910	3,995	5,331	665
November	86,643	19,238	18,299	11,785	8,024	292	16,912	3,485	4,773	786
December	94,506	18,908	26,423	11,866	7,807	1,662	17,120	3,784	2,926	1,362

Source: Ministry of Construction

Table 11: Japan's Labor Force Survey, 1977-1981

(in thousands of persons)

		Working-Age Population*	Total Labor Force	Employed Labor Force	Totally Unemployed Labor Force	Unemployment Rate	Not in Labor Force	Ratio of Job Openings to Applications**
1977		86,310	54,520	53,420	1,100	2.0%	31,570	0.54
1978		87,260	55,320	54,080	1,240	2.2	31,690	0.59
1979		88,240	55,960	54,790	1,170	2.1	32,000	0.74
1980		89,320	56,500	55,360	1,140	2.0	32,490	0.75
1981		90,170	57,070	55,810	1,260	2.2	32,790	0.68
1980	January	88,840	54,460	53,330	1,130	2.1	34,050	0.79
	February	88,900	54,500	53,390	1,110	2.0	34,030	0.78
	March	89,000	55,480	54,250	1,240	2.2	33,150	0.76
	April	89,070	56,740	55,570	1,180	2.1	32,040	0.75
	May	89,190	57,190	56,100	1,090	1.9	31,700	0.76
	June	89,280	57,630	56,580	1,050	1.8	31,350	0.75
	July	89,300	57,540	56,410	1,120	1.9	31,420	0.76
	August	89,460	57,240	56,090	1,150	2.0	31,870	0.74
	September	89,570	57,300	56,210	1,090	1.9	31,960	0.72
	October	89,690	57,160	56,030	1,130	2.0	32,220	0.72
	November	89,770	56,740	55,530	1,210	2.1	32,720	0.72
	December	89,780	56,010	54,830	1,180	2.1	33,400	0.72
1981	January	89,910	55,320	54,080	1,230	2.2	34,270	0.70
	February	89,920	55,330	53,980	1,350	2.4	34,270	0.70
	March	89,980	56,290	54,880	1,420	2.5	33,400	0.68
	April	90,020	57,590	56,210	1,370	2.4	32,130	0.67
	May	90,100	57,880	56,560	1,320	2.3	31,910	0.65
	June	90,150	58,040	56,780	1,260	2.2	31,790	0.67
	July	90,150	57,810	56,600	1,210	2.1	32,020	0.69
	August	90,260	57,560	56,410	1,150	2.0	32,390	0.68
	September	90,320	57,590	56,390	1,200	2.1	32,460	0.67
	October	90,370	57,590	56,370	1,220	2.1	32,510	0.66
	November	90,440	57,280	56,090	1,190	2.1	32,860	0.65
	December	90,430	56,610	55,420	1,190	2.1	33,470	0.68

*People 15 years old and over.

**Excludes applications by new school graduates.

Source: Prime Minister's Office and Ministry of Labor

Table 12: Employment Indexes of Regular Workers in Japan, 1977-1981

(1980 = 100)

	Total	Mining	Construc- tion	Manufac- turing	Foods and Tobacco	Textiles	Apparel	Lumber and Wood Products	Pulp and Paper Products	Publish- ing	Chemicals	Petroleum and Coal Products	Nonmetallic Mineral Products
1977	98.3	108.7	96.8	102.4	98.7	115.9	104.0	108.2	104.7	103.0	106.3	104.2	99.7
1978	98.7	103.0	98.7	100.1	99.0	105.7	100.8	102.3	101.6	102.2	102.1	102.9	100.7
1979	99.2	100.4	101.3	99.3	100.6	102.4	102.7	102.0	100.7	101.5	100.0	101.4	101.6
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	101.2	99.0	101.0	100.8	98.4	96.8	98.3	94.7	95.7	100.8	99.8	98.8	98.4
1980 January	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
February	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
March	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
April	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
May	101.0	100.3	100.6	100.9	101.3	101.8	101.3	100.2	101.8	101.0	101.5	101.4	101.1
June	100.8	100.2	100.4	100.9	100.8	101.2	100.9	100.5	100.8	101.0	101.1	101.0	100.8
July	100.7	99.9	100.6	100.7	100.4	100.6	100.5	100.5	100.0	100.7	100.7	100.7	100.5
August	100.4	100.0	100.1	100.4	100.6	99.6	99.5	100.3	99.3	100.4	100.1	100.2	100.1
September	100.2	100.3	100.0	100.2	100.4	98.9	99.3	100.6	98.7	100.4	99.9	99.9	100.1
October	100.1	100.0	100.1	100.1	99.2	98.3	98.9	99.8	98.0	100.1	99.6	99.5	99.9
November	100.3	100.0	100.5	100.2	99.7	98.3	98.5	99.3	97.4	100.3	99.6	99.4	99.8
December	99.9	100.0	99.2	99.9	99.1	98.2	97.8	99.4	97.1	100.2	99.2	98.5	98.7
1981 January	99.4	99.1	97.1	99.2	97.1	97.3	97.5	98.3	96.9	99.6	98.7	97.8	98.3
February	99.2	98.9	98.0	99.0	97.0	97.1	97.1	97.4	96.0	99.9	98.5	97.6	98.1
March	99.4	98.4	98.1	99.3	97.2	97.1	97.8	96.7	95.9	99.8	98.6	97.6	98.2
April	102.2	100.2	101.0	102.0	98.7	99.6	99.7	96.6	97.3	102.7	101.8	100.5	99.7
May	102.2	100.0	101.6	101.8	99.3	98.4	99.2	95.6	96.9	102.1	101.4	100.2	99.7
June	102.3	99.8	102.2	101.9	99.7	97.8	99.4	95.4	96.5	101.9	100.9	99.8	99.4
July	102.0	99.7	102.6	101.6	99.2	97.2	99.0	94.9	95.8	101.7	100.6	99.6	99.0
August	101.7	99.1	102.2	101.2	98.3	96.2	98.5	93.5	95.2	101.1	100.2	99.2	98.5
September	101.5	98.8	102.3	101.1	99.1	95.6	98.2	92.8	94.9	100.7	99.7	99.1	98.0
October	101.5	98.2	102.3	100.9	97.9	95.1	98.0	91.9	94.5	100.5	99.1	98.6	97.6
November	101.5	98.1	102.8	101.0	98.6	95.4	97.9	92.1	94.2	100.2	98.9	98.4	97.2
December	101.2	97.5	102.0	100.7	98.3	95.3	97.6	91.5	93.7	99.8	98.7	97.7	96.5

(continued)

Table 12: Employment Indexes of Regular Workers in Japan, 1977-1981 (continued)

(1980 = 100)

	Iron and Steel	Non- ferrous Metals	Fabricat- ed Metal Products	Non- electric Machinery	Electric Machinery	Transport Equipment	Precision Instruments	Wholesale and Retail Trade	Finance and Insurance	Real Estate	Trans- portation and Commu- nication	Utilities	Services
1977	109.7	102.5	101.6	105.7	93.6	106.9	94.7	97.6	96.8	103.7	101.0	97.0	89.9
1978	104.7	98.7	97.9	102.7	92.6	103.6	97.2	99.3	99.9	99.1	101.1	98.5	94.0
1979	101.1	98.4	98.2	100.1	94.8	98.4	97.9	99.2	100.6	99.5	100.5	99.8	97.1
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	98.8	99.8	100.7	101.4	106.3	102.4	102.6	101.6	100.1	100.5	100.3	99.6	102.5
1980													
January	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
February	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
March	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
April	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
May	100.7	100.9	100.9	100.7	100.6	100.5	100.8	101.8	102.1	102.2	100.1	101.2	100.8
June	100.4	101.0	100.7	100.7	101.0	100.5	100.8	101.6	101.8	102.0	100.0	100.9	100.8
July	100.3	100.7	100.4	100.4	101.0	100.7	101.0	101.3	101.1	101.5	99.9	100.6	100.9
August	100.1	100.3	100.1	100.4	100.9	100.6	100.7	100.6	100.4	101.0	99.8	100.5	100.8
September	99.8	100.2	100.8	100.2	101.3	100.7	100.8	100.3	100.0	100.5	99.8	100.2	100.8
October	99.6	100.0	100.6	99.9	101.5	100.8	100.8	99.8	99.6	100.2	100.0	99.8	101.1
November	99.7	99.8	100.7	100.1	102.0	101.1	100.9	99.7	99.4	99.9	100.1	99.8	101.2
December	99.3	99.7	100.5	100.1	102.0	100.8	100.9	99.5	98.8	99.7	100.4	99.5	100.6
1981													
January	99.1	99.4	98.8	99.7	101.7	100.2	100.6	98.7	98.0	98.6	100.4	99.2	100.3
February	98.8	99.1	98.8	99.5	101.8	100.0	100.5	98.4	97.7	98.3	100.3	98.9	100.3
March	98.3	99.2	98.7	99.7	102.5	100.1	100.4	99.2	97.3	98.7	100.5	98.7	99.9
April	99.5	101.1	101.4	102.4	106.9	103.7	104.2	103.8	102.3	103.0	100.4	100.1	103.0
May	99.6	100.9	101.5	102.3	107.3	103.6	103.9	103.5	102.3	102.7	100.4	100.4	103.2
June	99.3	100.5	101.7	102.3	107.5	103.6	104.1	103.5	102.0	102.2	100.4	100.2	103.3
July	99.1	100.2	101.3	102.1	107.6	103.6	103.7	103.0	101.1	101.6	100.2	99.7	103.4
August	98.9	99.8	101.3	101.8	107.4	103.3	103.2	102.3	100.8	101.1	100.0	100.0	103.3
September	98.6	99.6	101.3	101.6	108.1	103.0	102.9	101.8	100.2	100.6	100.0	99.7	103.1
October	98.2	99.6	101.1	101.9	108.3	102.8	102.7	101.5	100.0	100.2	100.1	99.7	103.3
November	98.0	99.4	101.3	101.6	108.6	102.8	102.6	101.6	100.0	100.0	100.1	99.5	103.5
December	97.7	99.1	101.6	101.6	108.4	102.5	102.1	101.4	99.5	99.1	100.3	99.4	102.9

Source: Ministry of Labor

Table 13: Nominal Wage Indexes of Regular Workers in Japan, 1977-1981

(1980 = 100)

	Total	Mining	Construction	Manufacturing	Foods and Tobacco	Textiles	Apparel	Lumber and Wood Products	Pulp and Paper Products	Publishing	Chemicals	Petroleum and Coal Products	Nonmetallic Mineral Products
1977	82.7	83.9	79.1	81.3	84.2	77.3	82.3	79.0	82.8	80.8	79.2	77.5	82.0
1978	88.0	88.9	85.9	86.1	89.5	84.1	88.6	84.2	87.1	85.9	83.9	85.2	86.2
1979	93.5	93.7	92.6	92.5	92.4	92.7	93.9	93.6	94.1	91.0	92.9	92.6	92.5
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	106.0	106.7	107.8	106.2	104.6	107.0	106.2	102.9	104.2	106.2	104.6	106.7	106.6
1980 January	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
February	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
March	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
April	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
May	75.9	77.4	80.1	77.8	80.1	78.3	82.4	82.4	77.5	76.3	73.2	71.4	80.3
June	135.1	111.6	123.5	118.0	120.4	121.1	90.9	96.7	132.3	135.3	132.4	151.9	113.1
July	133.8	115.1	129.3	160.1	138.0	141.8	151.4	146.0	146.8	151.5	164.9	156.3	151.0
August	87.8	132.3	95.1	90.7	97.3	98.0	106.8	108.7	88.8	84.4	84.8	82.6	96.9
September	75.9	83.5	82.5	76.9	76.8	79.1	82.9	83.7	78.0	75.9	71.7	71.1	78.3
October	78.0	79.0	83.0	76.9	78.3	78.6	83.8	81.2	78.0	75.9	72.7	71.0	78.4
November	79.2	79.9	87.1	80.6	79.9	81.0	86.0	87.6	78.4	81.1	76.9	78.9	83.4
December	229.2	209.6	208.8	223.2	221.3	209.4	197.8	195.3	222.5	226.9	245.0	248.0	215.5
1981 January	79.8	89.6	82.1	79.7	82.2	83.0	89.6	81.9	79.6	82.1	77.6	81.1	80.4
February	76.5	79.1	82.0	77.0	77.5	81.8	83.2	82.6	77.1	75.3	72.5	72.1	79.9
March	87.1	82.3	85.8	77.6	81.2	81.6	82.9	81.8	78.0	77.0	72.5	71.5	80.7
April	79.2	79.9	84.3	79.3	80.1	83.1	85.8	84.9	78.4	79.0	73.9	79.4	81.3
May	80.2	80.9	85.7	82.2	83.6	84.3	87.7	85.9	81.1	80.5	77.2	76.3	83.6
June	144.6	117.8	140.2	123.9	123.6	126.0	100.5	101.6	135.6	142.1	135.6	143.2	119.0
July	142.7	129.7	140.8	173.6	148.8	150.0	152.3	138.0	150.6	161.3	178.3	180.1	165.3
August	90.9	138.9	96.7	93.3	99.6	109.2	116.5	115.7	94.3	86.7	81.7	91.3	99.4
September	80.3	85.7	87.3	81.3	81.3	85.2	87.3	87.8	82.0	79.8	76.3	75.7	83.9
October	81.7	84.7	88.3	81.9	80.9	85.4	87.2	87.4	83.2	79.9	77.9	75.4	84.5
November	83.9	84.3	92.5	85.9	85.4	88.6	88.7	91.5	85.2	85.5	79.8	81.6	93.1
December	244.6	227.4	227.7	238.5	230.4	225.5	212.5	195.5	225.5	245.5	251.8	252.1	228.2

(continued)

Table 13: Nominal Wage Indexes of Regular Workers in Japan, 1977-1981 (continued)

(1980 = 100)

		Iron and Steel	Non- ferrous Metals	Fabricat- ed Metal Products	Non- electric Machinery	Electric Machinery	Transport Equipment	Precision Instruments	Wholesale and Retail Trade	Finance and Insurance	Real Estate	Trans- portation and Commu- nication	Utilities	Services
1977		81.8	80.6	81.7	80.1	81.1	81.8	81.2	83.2	81.7	79.9	86.6	83.3	85.3
1978		84.3	86.2	87.8	83.5	87.5	85.1	86.6	88.0	87.6	87.4	91.0	88.8	90.9
1979		91.4	93.1	94.2	91.8	92.9	91.5	93.9	93.7	93.0	93.5	94.4	94.7	94.7
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		106.8	105.9	108.1	106.4	106.1	106.6	105.7	104.9	106.9	103.4	107.0	107.7	104.8
1980	January	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	February	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	March	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	April	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	May	76.2	77.6	79.2	78.4	77.0	78.5	76.1	77.8	70.9	73.8	75.1	73.8	72.8
	June	84.2	138.5	101.9	109.4	150.4	95.8	104.9	117.6	181.1	139.0	132.1	201.4	159.5
	July	201.2	145.9	170.6	166.9	135.7	187.7	179.2	149.5	115.0	135.2	122.0	81.9	100.6
	August	94.6	89.4	95.0	91.4	82.7	88.4	93.7	89.8	79.6	80.3	90.1	74.7	81.2
	September	75.2	76.5	78.5	77.4	76.3	77.9	74.9	76.7	69.7	74.1	76.1	73.8	73.6
	October	75.5	75.4	77.3	76.8	75.8	78.0	73.8	79.2	70.5	75.2	87.4	75.3	74.9
	November	78.7	78.6	79.9	83.1	77.6	83.5	76.8	80.8	74.4	77.7	78.5	74.4	75.7
	December	224.3	220.4	216.5	221.5	232.7	215.6	239.0	225.0	253.3	235.2	217.7	237.9	246.2
1981	January	77.6	79.5	82.2	79.6	77.7	77.3	76.9	81.5	76.3	78.1	82.0	79.9	78.0
	February	74.4	79.1	79.2	76.2	76.7	76.4	74.1	75.8	68.3	74.0	78.0	75.9	75.9
	March	74.6	77.5	79.8	77.6	76.3	77.1	74.1	79.5	86.8	84.3	97.9	90.6	100.4
	April	77.9	78.4	83.5	78.9	78.1	78.6	75.9	80.8	73.9	78.4	79.4	82.0	78.2
	May	80.4	81.6	84.8	83.3	81.5	82.8	79.0	81.9	74.6	77.3	79.2	79.5	77.0
	June	89.4	145.6	104.3	113.2	159.4	99.4	116.1	127.1	197.7	149.6	146.1	213.9	167.7
	July	224.1	152.9	193.9	184.7	147.1	206.5	183.9	155.1	124.8	140.4	127.9	91.0	105.0
	August	94.6	91.8	96.7	91.8	84.8	92.7	96.1	92.6	79.7	82.2	93.8	84.6	85.9
	September	79.7	81.3	84.8	82.1	80.2	81.1	77.7	81.6	74.4	77.3	80.9	79.1	77.5
	October	80.2	81.8	84.8	81.7	80.7	82.5	77.7	82.5	75.1	78.2	85.2	80.7	78.8
	November	83.3	84.3	87.8	86.9	83.2	89.3	80.5	85.0	78.0	78.2	84.7	83.4	79.2
	December	244.9	236.9	235.4	240.3	247.1	235.7	256.5	235.7	272.9	243.0	248.3	251.8	253.7

Source: Ministry of Labor

Table 14: Indexes of Labor Productivity in Japan, 1977-1981

(1975 = 100)

	Total	Mining	Manufacturing	Foods	Textiles	Apparel	Lumber and Wood Products	Pulp and Paper Products	Nonmetallic Mineral Products
1977	117.9	112.6	118.0	98.9	115.3	112.4	118.7	118.1	119.7
1978	127.3	123.0	127.4	100.6	124.2	116.9	109.1	129.8	131.2
1979	142.7	125.1	142.8	100.7	129.0	116.4	119.3	143.3	144.7
1980	155.7	124.9	156.0	101.3	131.5	115.5	121.3	151.2	150.2
1981	161.2	123.9	161.5	103.9	133.6	116.9	112.4	150.8	147.3
1980 January	152.7	126.6	152.9	119.0	134.5	116.3	121.0	154.8	147.7
February	154.0	126.5	154.2	113.3	130.6	115.5	115.5	151.2	150.1
March	164.3	132.7	164.5	103.2	135.0	120.3	121.7	164.3	160.4
April	154.2	125.7	154.4	103.3	133.6	120.8	125.7	152.3	150.5
May	156.5	124.9	156.7	96.1	136.2	122.6	130.6	156.2	153.5
June	152.4	122.6	152.6	92.1	130.8	117.0	115.3	151.3	146.5
July	153.8	118.0	154.1	91.1	132.1	115.6	122.1	150.3	148.4
August	151.8	116.9	152.1	95.9	129.8	111.9	120.5	148.2	143.8
September	158.5	121.6	158.8	95.5	128.1	110.8	117.3	144.9	143.8
October	157.0	125.6	157.2	105.0	130.4	113.4	124.9	150.7	152.8
November	154.0	127.6	154.2	98.6	127.7	109.7	122.1	144.8	152.9
December	159.6	129.9	159.8	102.5	129.2	111.7	118.5	145.1	151.5
1981 January	159.6	128.1	159.8	120.2	134.6	118.2	118.7	145.3	146.3
February	157.7	127.2	157.9	106.4	130.6	114.5	111.8	140.2	144.1
March	169.5	130.8	169.8	107.4	136.9	120.8	124.1	155.6	152.3
April	155.8	123.0	156.0	101.6	135.3	122.8	114.7	146.6	143.1
May	158.1	125.4	158.3	101.9	136.8	124.1	120.5	148.6	145.0
June	157.1	119.2	157.4	94.0	132.9	118.9	110.9	148.0	144.4
July	158.3	117.7	158.6	98.8	131.1	113.4	105.7	149.5	144.8
August	158.0	118.0	158.3	106.4	132.7	113.9	105.4	150.5	143.8
September	167.3	122.7	167.6	99.6	131.9	113.3	106.9	154.6	149.3
October	163.5	123.0	163.8	104.5	134.0	114.7	113.5	158.4	150.8
November	163.6	123.8	163.9	102.8	133.4	113.4	107.5	156.3	151.5
December	166.1	127.7	166.4	103.0	133.4	114.2	108.7	155.7	152.7

(continued)

Table 14: Indexes of Labor Productivity in Japan, 1977-1981 (continued)

(1975 = 100)

		Chemicals	Petroleum and Coal Products	Iron and Steel	Nonferrous Metals	Fabricated Metal Products	Nonelectric Machinery	Electric Machinery	Transport Equipment	Precision Instruments
1977		120.5	104.4	114.1	132.1	129.7	124.1	136.0	101.0	164.2
1978		136.9	105.2	121.4	148.3	141.0	139.1	161.4	95.6	192.2
1979		153.2	110.5	140.1	161.4	140.9	161.4	194.4	110.7	247.8
1980		157.7	105.6	145.9	162.4	138.4	181.3	229.0	137.9	336.1
1981		162.7	102.2	142.1	160.4	133.1	183.6	267.3	141.3	392.6
1980	January	158.1	122.3	151.1	174.3	139.3	169.7	206.1	125.4	311.8
	February	165.0	112.4	145.4	166.7	142.2	175.5	213.3	133.9	285.1
	March	163.2	116.4	151.6	177.8	150.8	211.1	242.0	136.5	312.5
	April	160.5	115.0	147.3	167.2	142.6	181.3	213.5	135.6	276.0
	May	167.7	107.3	153.2	170.0	144.2	179.8	216.3	138.2	300.7
	June	155.8	86.6	145.4	161.2	139.3	179.1	219.9	140.7	317.1
	July	153.3	99.0	144.9	162.2	139.3	174.4	227.4	144.1	338.1
	August	150.6	97.9	142.1	152.0	132.4	176.1	229.6	131.1	353.2
	September	151.7	95.4	144.8	153.8	131.2	192.3	254.2	148.2	380.3
	October	150.9	101.9	145.8	159.1	136.1	183.3	235.8	140.9	370.7
	November	151.9	104.2	139.7	150.9	130.9	175.8	238.4	134.7	373.9
	December	163.2	118.4	139.9	154.1	132.3	176.9	251.1	145.5	413.9
1981	January	157.1	116.3	142.1	160.3	130.1	180.0	237.7	147.5	392.3
	February	157.4	107.8	136.1	153.4	129.0	179.2	249.6	144.4	405.8
	March	165.3	121.6	144.9	166.5	136.7	201.7	276.6	149.9	461.0
	April	152.4	103.9	138.6	158.7	132.5	177.7	240.8	140.0	393.4
	May	160.0	99.5	143.5	153.2	129.8	180.7	248.5	138.7	414.9
	June	157.1	87.7	137.8	161.2	129.8	177.5	257.1	143.6	400.2
	July	156.6	93.0	138.3	159.9	127.1	182.2	260.6	146.1	402.2
	August	163.1	93.1	143.4	160.9	134.8	181.9	270.3	123.9	372.1
	September	172.1	94.4	143.6	163.0	139.6	192.9	301.9	145.9	377.9
	October	170.0	96.9	146.4	163.8	139.3	180.8	279.3	140.0	351.2
	November	168.8	99.4	144.8	162.4	133.2	182.9	291.9	136.3	365.6
	December	173.2	112.6	145.9	160.9	135.6	185.2	293.8	140.2	374.1

Source: Japan Productivity Center

Table 15: Japan's Wholesale Price Index by Industry, 1977-1981

(1975 = 100)

		<u>Total</u>									
		Change Over			Lumber	Pulp, Paper		Iron			
		Year-Earlier		Textile	and Wood	and Related	Metal Ores	and	Nonferrous	Metal	
	Index	Period	Food	Products	Products	Products	and Scrap	Steel	Metals	Products	
1977	107.0	1.9%	114.6	107.9	112.1	106.7	92.4	110.5	102.5	107.3	
1978	104.3	-2.5	114.6	110.1	107.9	98.2	80.5	113.5	94.7	109.8	
1979	111.9	7.3	115.5	115.3	133.2	102.3	102.2	119.4	118.6	112.0	
1980	131.8	17.8	124.1	121.9	149.6	133.3	121.6	130.5	153.0	123.0	
1981	134.1	1.7	129.3	121.9	132.9	129.3	109.4	131.2	129.4	124.3	
1980	January	124.0	19.3	117.7	118.7	150.7	116.3	130.8	124.6	163.7	115.5
	February	127.2	21.4	119.8	120.6	155.4	124.0	141.5	126.2	176.4	116.3
	March	129.8	22.8	121.2	121.6	158.6	128.7	134.1	127.8	167.9	119.1
	April	133.3	24.0	122.6	123.6	159.1	134.4	127.9	134.9	156.5	121.9
	May	133.1	21.9	124.3	123.6	158.3	137.0	121.6	133.7	148.5	122.7
	June	133.0	20.3	124.4	122.9	153.9	138.7	115.1	131.7	146.6	124.2
	July	133.5	18.6	125.0	122.4	151.0	138.9	119.2	131.5	148.9	125.2
	August	134.5	17.5	125.7	123.0	147.5	138.1	119.6	132.4	149.0	125.2
	September	134.1	15.5	126.3	123.4	143.3	137.2	117.0	131.6	148.8	126.8
	October	133.1	13.4	126.8	121.9	138.9	136.4	112.0	130.8	146.3	126.5
	November	133.2	11.7	127.5	120.9	139.6	135.6	110.6	130.4	143.9	126.3
	December	133.0	9.6	128.3	120.2	138.4	134.7	109.8	129.9	139.2	126.2
1981	January	132.3	6.7	127.8	120.0	136.2	133.4	105.3	129.0	133.6	126.1
	February	132.1	3.9	127.9	120.5	133.4	131.2	103.0	128.4	129.4	125.7
	March	132.1	1.8	127.9	121.0	131.1	130.7	104.6	128.4	129.1	125.5
	April	132.7	-0.5	128.2	120.9	132.3	129.8	107.8	129.5	130.4	125.2
	May	133.8	0.4	129.1	121.1	133.6	129.2	110.6	130.6	129.6	125.2
	June	134.4	1.1	129.3	121.1	132.2	128.9	111.3	132.4	129.3	125.2
	July	135.0	1.1	129.7	121.5	131.1	128.5	113.1	133.6	128.0	123.9
	August	135.7	0.9	130.2	122.4	130.6	128.1	115.3	133.7	130.6	123.4
	September	135.7	1.2	130.5	122.8	131.8	127.7	112.9	132.9	131.3	123.2
	October	135.5	1.8	130.2	123.7	133.0	127.7	112.3	132.5	129.8	122.8
	November	135.3	1.6	130.3	123.7	133.3	128.0	109.7	131.8	127.1	122.6
	December	135.1	1.6	131.0	124.1	136.4	127.9	107.1	131.0	124.8	122.4

(continued)

Table 15: Japan's Wholesale Price Index by Industry, 1977-1981 (continued)

(1975 = 100)

		Nonelectric Machinery	Electric Machinery	Transport Equipment	Precision Instruments	Chemicals	Petroleum, Coal and Related Products	Ceramics	Electric Power and Gas	Miscellaneous
1977		101.0	98.2	101.4	100.0	104.2	109.0	108.4	121.8	108.2
1978		101.0	95.5	100.8	98.7	98.5	94.8	115.0	117.3	106.4
1979		103.4	95.8	101.5	97.4	109.0	116.0	123.9	120.8	113.5
1980		108.3	98.5	104.0	97.5	131.3	193.9	143.7	184.4	129.1
1981		110.9	99.5	106.3	95.8	129.4	215.6	149.6	199.2	132.7
1980	January	105.6	97.0	103.0	97.5	122.6	166.4	131.1	135.8	123.6
	February	105.9	97.2	103.4	96.7	125.6	177.4	132.2	138.2	125.2
	March	106.6	97.6	103.7	96.9	128.8	190.2	140.3	140.3	127.4
	April	107.5	98.2	104.2	97.0	132.6	195.8	143.8	198.4	127.8
	May	107.9	98.5	103.0	97.3	133.5	195.1	144.9	199.0	128.0
	June	108.1	98.5	103.0	97.6	133.7	196.7	145.0	197.1	130.8
	July	109.0	99.0	104.3	97.8	134.2	196.1	146.4	206.6	130.9
	August	109.6	99.2	104.9	97.8	134.1	204.0	147.2	205.0	130.8
	September	109.8	98.9	104.6	97.8	133.9	202.8	147.3	203.8	130.9
	October	109.9	99.0	104.5	97.9	132.9	200.3	148.1	194.5	131.1
	November	110.1	99.1	104.8	97.9	132.1	201.3	149.1	196.7	131.5
	December	110.1	99.2	104.6	97.9	131.7	201.0	149.2	197.1	131.5
1981	January	110.1	99.3	104.7	97.4	130.2	199.9	149.1	196.6	133.1
	February	110.2	99.4	104.9	95.9	129.2	202.0	149.1	196.0	132.9
	March	110.3	99.4	105.1	95.9	128.7	203.3	149.3	196.2	132.9
	April	110.8	99.1	105.3	95.9	128.7	206.4	149.6	196.8	132.9
	May	111.0	99.3	106.8	95.9	129.0	212.9	149.3	197.1	132.9
	June	110.9	99.6	106.9	95.9	128.4	218.1	149.3	196.4	132.9
	July	111.2	99.9	107.3	95.6	129.1	220.1	149.6	205.6	132.2
	August	111.4	100.1	107.4	95.6	129.5	224.6	149.8	206.2	132.3
	September	111.4	100.0	107.1	95.5	129.6	225.5	150.0	206.4	132.3
	October	111.4	99.5	107.1	95.4	130.1	225.8	150.2	197.7	132.5
	November	111.3	99.3	106.5	95.3	130.3	225.1	150.1	197.7	132.7
	December	111.1	99.2	106.5	95.2	130.2	223.4	150.0	197.4	132.7

Source: Bank of Japan

Table 16: Japan's Wholesale Price Index by Special Breakdown (1), 1977-1981

(1975 = 100)

	<u>Domestic Products</u>	<u>Exported Products</u>	<u>Imported Products</u>
1977	109.1	94.2	102.9
1978	108.5	88.8	85.7
1979	113.9	97.6	109.5
1980	131.0	105.6	161.7
1981	133.0	107.8	166.9
1980 January	122.4	105.5	152.6
February	124.7	107.6	163.7
March	127.1	109.4	168.5
April	131.1	111.1	170.3
May	132.3	106.6	163.6
June	133.0	103.7	159.4
July	133.4	104.6	160.7
August	134.1	105.7	163.9
September	134.2	103.8	161.2
October	133.4	102.7	158.0
November	133.3	103.4	159.4
December	133.2	103.0	158.7
1981 January	132.8	101.7	156.2
February	132.1	102.6	158.1
March	131.8	103.7	160.0
April	131.9	105.3	163.3
May	132.6	107.4	167.3
June	132.7	109.2	170.4
July	132.9	111.5	172.5
August	133.5	112.3	173.6
September	133.9	111.2	171.9
October	133.6	111.3	172.2
November	133.8	109.4	169.9
December	134.1	107.9	167.3

Source: Bank of Japan

Table 17: Japan's Wholesale Price Index by Special Breakdown (2), 1977-1981

(1975 = 100)

	Producer Goods										
	Materials				Fuels and Energy	Construction Materials	Other Producer Goods	Capital Goods	Consumer Goods		
	Total	Total	Raw Materials	Semifinished Goods					Total	Durables	Nondurables
1977	108.9	107.3	105.9	107.7	117.7	110.2	111.3	103.0	109.4	98.8	113.2
1978	104.3	100.8	91.9	104.1	110.9	113.7	110.3	104.3	110.2	97.8	114.7
1979	115.5	112.2	113.2	111.8	121.1	127.7	113.9	105.6	112.3	97.5	117.6
1980	145.4	139.8	158.9	132.8	199.5	142.6	127.4	110.4	121.2	99.2	121.9
1981	146.8	139.8	164.9	130.5	223.2	136.9	128.7	113.0	125.4	99.3	134.7
1980 January	134.1	132.0	150.6	125.1	151.1	137.6	120.2	107.4	115.9	98.4	122.2
February	138.9	137.6	161.0	129.0	156.3	140.0	121.7	107.7	117.1	98.3	123.9
March	142.8	140.4	166.1	130.9	168.8	143.8	124.9	108.1	118.1	98.8	125.0
April	148.0	142.9	166.7	134.1	199.8	146.2	126.3	108.9	119.8	99.1	127.2
May	147.8	141.6	161.4	134.4	204.1	147.4	127.7	109.7	121.1	99.2	129.0
June	147.5	140.7	156.9	134.8	209.2	145.4	128.6	110.4	122.0	99.2	130.2
July	147.9	141.2	157.6	135.1	212.5	144.2	129.2	111.5	122.3	99.5	130.5
August	149.2	141.9	160.3	135.1	222.3	143.0	130.0	112.0	122.8	99.5	131.2
September	148.6	141.2	157.9	135.1	222.2	142.0	130.0	112.2	123.2	99.6	131.7
October	146.7	139.7	155.0	134.1	215.7	140.6	130.0	112.4	123.6	99.8	132.1
November	146.7	139.6	156.5	133.4	216.2	140.6	129.9	112.4	123.9	99.8	132.6
December	146.1	138.9	156.6	132.4	216.2	140.0	129.8	112.4	124.3	99.7	133.1
1981 January	145.2	137.9	154.8	131.6	215.7	139.1	129.7	112.7	124.1	99.7	132.9
February	144.5	137.6	157.0	130.4	214.2	137.4	129.3	112.7	124.2	99.3	133.1
March	144.4	137.8	158.7	130.1	213.0	136.3	129.2	112.6	124.2	99.3	133.1
April	145.3	137.7	161.6	130.3	214.4	136.8	129.3	112.7	124.1	98.8	133.1
May	146.5	139.8	165.3	130.3	218.1	137.5	129.3	113.0	125.0	99.6	134.2
June	147.2	140.4	168.1	130.2	222.1	137.3	127.8	112.9	125.1	99.7	134.2
July	147.7	140.7	169.9	130.0	226.7	136.3	127.8	113.0	125.4	99.6	134.6
August	148.5	141.3	170.9	130.4	231.2	135.9	128.0	113.1	126.1	99.6	135.6
September	148.6	141.0	169.3	130.6	233.9	136.1	128.1	113.3	126.4	99.6	136.0
October	148.3	141.2	169.3	130.8	229.7	136.1	128.2	113.2	126.2	99.8	136.1
November	148.0	140.7	168.1	130.6	229.9	136.4	128.7	113.3	126.5	99.8	136.4
December	147.8	140.1	166.3	130.4	229.6	137.4	129.2	113.5	126.9	99.8	137.0

Source: Bank of Japan

Table 18: Japan's Consumer Price Index, 1977-1981

(1980 = 100)

		Total		Food	Housing	Utilities	Clothing	Medical Care	Transportation	Education	Recreation	Miscellaneous
		Index	Change Over Year- Earlier Period									
1977		86.1	8.1%	89.2	82.0	72.0	87.3	87.7	87.6	74.7	86.3	84.3
1978		89.4	3.8	92.3	87.3	71.6	90.4	96.2	88.7	83.9	90.3	86.7
1979		92.6	3.6	94.3	92.4	74.9	94.8	98.3	94.0	91.5	93.2	89.2
1980		100.0	8.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		104.9	4.9	105.3	104.0	107.7	104.0	102.8	103.4	107.5	105.0	104.5
1980	January	96.1	6.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	February	96.8	8.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	March	97.4	8.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	April	99.2	8.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	May	100.1	8.2	99.0	99.4	104.6	101.3	100.0	101.2	102.0	98.6	101.4
	June	100.6	8.4	99.0	100.0	104.8	103.1	100.0	101.2	102.0	100.4	101.8
	July	100.6	7.7	99.0	100.8	105.6	101.8	100.2	100.7	102.0	101.2	102.1
	August	100.3	8.7	99.9	101.3	105.6	92.8	100.3	100.2	102.0	102.4	102.3
	September	102.1	8.9	102.2	101.6	106.0	102.6	100.4	100.0	101.9	101.8	102.6
	October	102.3	7.8	101.8	101.9	105.9	104.7	100.5	100.0	101.9	102.6	102.8
	November	102.5	8.4	101.9	102.2	105.8	105.3	100.7	99.9	102.1	102.8	130.0
	December	102.1	7.1	101.0	102.6	105.7	105.2	100.8	99.4	102.1	103.2	103.1
1981	January	103.1	7.3	104.1	102.9	105.7	101.6	101.1	99.4	102.1	104.1	103.4
	February	103.0	6.4	104.6	103.2	105.8	98.1	101.2	99.8	102.1	103.8	103.5
	March	103.5	6.3	105.2	103.5	105.7	99.3	100.8	99.9	102.2	104.4	103.7
	April	104.3	5.1	105.6	104.0	106.4	100.6	101.4	100.3	109.0	105.2	103.9
	May	105.2	5.1	105.4	104.5	107.2	105.7	101.6	104.1	109.3	105.1	104.2
	June	105.3	4.7	105.3	103.6	107.4	106.8	103.4	104.3	109.3	104.7	104.4
	July	105.0	4.4	105.0	103.9	107.6	104.3	103.6	104.4	109.3	104.8	104.6
	August	104.4	4.1	104.7	104.1	108.3	95.8	103.8	104.9	109.3	106.5	104.7
	September	106.1	3.9	106.2	104.4	108.8	107.1	104.0	105.6	109.3	105.1	105.1
	October	106.5	4.1	106.3	104.5	109.3	110.2	104.1	105.9	109.3	104.9	105.3
	November	106.2	3.6	105.5	104.8	110.2	109.2	104.3	106.2	109.3	105.1	105.4
	December	106.5	4.3	105.8	105.0	110.2	109.3	104.4	106.4	109.3	106.1	105.5

Source: Prime Minister's Office

Table 19: Japan's Export and Import Yen-Based Price Indexes, 1977-1981

(1975 = 100)

		Exports		Imports	
		Index	Change Over Year- Earlier Period	Index	Change Over Year- Earlier Period
1977		93.5	-5.0%	101.5	-4.2%
1978		88.0	-5.9	83.8	-17.4
1979		95.8	8.9	107.8	28.6
1980		104.7	9.3	154.2	43.0
1981		106.7	1.9	158.8	3.0
1980	January	103.7	17.6	147.2	78.0
	February	105.7	18.5	157.1	83.5
	March	107.7	18.4	161.3	82.1
	April	109.4	17.0	162.9	73.1
	May	105.5	11.4	155.2	54.1
	June	103.1	8.1	151.2	45.5
	July	104.0	8.6	152.8	28.5
	August	105.2	8.9	156.5	36.1
	September	103.5	5.8	153.8	29.4
	October	102.5	2.3	150.1	21.5
	November	103.2	-0.5	151.4	14.6
	December	102.9	-1.0	150.4	8.3
1981	January	101.7	-1.9	147.9	0.5
	February	102.5	-3.0	150.3	-4.3
	March	103.3	-4.1	152.4	-5.5
	April	104.7	-4.3	155.5	-4.5
	May	106.2	0.7	159.4	2.7
	June	107.7	4.5	162.0	7.1
	July	109.6	5.4	164.6	7.7
	August	110.3	4.8	165.7	5.9
	September	109.5	5.8	163.7	6.4
	October	109.8	7.1	164.1	9.3
	November	108.3	4.9	161.5	6.7
	December	107.1	4.1	158.7	5.5

Source: Bank of Japan

Table 20: Japan's Global Balance of Payments, 1977-1981

(in millions of dollars, IMF value basis, seasonally unadjusted)

		Exports	Imports	Trade Balance	Services	Transfers	Current Account Balance	Long- Term Capital	Basic Balance	Short- Term Capital	Errors and Omissions	Overall Balance	International Reserves*
1977		\$ 79,333	\$ 62,022	\$17,311	\$-6,004	\$ -389	\$10,918	\$-3,184	\$ 7,734	\$ -648	\$ 657	\$ 7,743	\$22,848
1978		95,634	71,038	24,596	-7,387	-675	16,534	-12,389	4,145	1,538	267	5,950	33,019
1979		101,232	99,387	1,845	-9,472	-1,127	-8,754	-12,618	-21,372	2,377	2,333	-16,662	20,327
1980		126,736	124,611	2,125	-11,343	-1,528	-10,746	2,394	-8,352	3,071	-3,115	-8,396	25,232
1981		149,522	129,555	19,967	-13,573	-1,624	4,770	-6,449	-1,679	-958	493	-2,144	28,403
1980	January	6,865	9,194	-2,329	-948	-95	-3,372	845	-2,527	451	-146	-2,222	21,014
	February	9,384	9,612	-228	-920	-102	-1,250	1,149	-101	181	-920	-840	20,771
	March	10,469	10,505	-36	-856	-296	-1,188	-1,385	-2,573	259	-216	-2,530	18,543
	April	9,881	10,640	-759	-932	-93	-1,784	-2,264	-4,048	-692	-636	-5,376	18,915
	May	10,272	10,937	-665	-1,032	-164	-1,861	1,300	-561	124	190	-247	21,404
	June	10,688	10,564	124	-877	-135	-888	1,102	214	363	-577	0	22,642
	July	11,224	11,070	154	-965	-140	-951	922	-29	242	109	322	22,793
	August	10,104	9,799	305	-1,129	-89	-913	852	-61	535	405	879	23,048
	September	11,335	9,535	1,800	-874	-73	853	318	1,171	220	-445	946	23,768
	October	11,620	10,792	828	-712	-133	-17	-698	-715	216	-581	-1,080	24,736
	November	10,842	10,227	615	-1,020	-101	-506	526	20	1,086	246	1,352	24,936
	December	14,052	11,736	2,316	-1,078	-107	1,131	-273	858	86	-544	400	25,232
1981	January	9,306	10,718	-1,412	-1,153	-159	-2,724	1,484	-1,240	350	842	-48	26,502
	February	11,903	10,521	1,382	-1,440	-71	-129	706	577	126	-47	656	26,685
	March	13,715	11,637	2,078	-987	-314	777	402	1,179	428	209	1,816	27,020
	April	12,683	11,250	1,433	-901	-83	449	-3,203	-2,754	294	17	-2,443	27,344
	May	12,178	11,369	809	-1,104	-87	-382	-736	-1,118	194	-248	-1,172	27,735
	June	12,590	9,986	2,604	-1,123	-93	1,388	-1,770	-382	-425	-147	-954	27,837
	July	13,360	10,985	2,375	-1,248	-187	940	-1,444	-504	-510	233	-781	27,514
	August	11,644	9,906	1,738	-1,186	-75	477	231	708	-474	367	601	27,660
	September	13,021	9,746	3,275	-1,079	-82	2,114	0	2,114	-545	-15	1,554	27,980
	October	13,182	10,230	2,952	-995	-169	1,788	-2,506	-718	-570	-163	-1,451	28,448
	November	11,574	11,015	559	-1,464	-156	-1,061	2,732	1,671	-503	-792	376	28,779
	December	14,366	12,192	2,174	-893	-148	1,133	-2,345	-1,212	677	237	-298	28,403

*Gold, foreign exchange, special drawing rights (SDRs) and International Monetary Fund (IMF) reserve position. Annual figures are for December.

Source: Bank of Japan and Ministry of Finance

Table 21: Japan's Exports and Imports in Dollar Terms, 1977-1981

(in millions of dollars, customs clearance basis, seasonally unadjusted)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1977	\$ 80,495	19.7%	\$ 70,809	9.3%	\$ 9,686
1978	97,543	21.2	79,343	12.1	8,200
1979	103,032	5.6	110,672	39.5	-17,641
1980	129,807	26.0	140,528	27.0	-10,721
1981	152,030	17.1	143,290	2.0	8,741
1980 January	6,977	14.8	10,439	38.6	-3,462
February	9,581	23.3	10,985	48.3	-1,404
March	10,728	13.5	11,814	39.0	-1,086
April	10,038	26.7	12,057	45.0	-2,019
May	10,488	27.1	12,346	36.4	-1,858
June	11,008	26.9	12,033	42.7	-1,025
July	11,448	28.5	12,427	35.9	-979
August	10,398	25.1	11,199	12.2	-801
September	11,671	25.3	10,778	7.1	893
October	11,895	33.7	12,210	18.5	-316
November	11,117	29.5	11,353	5.1	-236
December	14,458	33.0	12,886	15.7	1,572
1981 January	9,459	35.6	11,945	14.4	-2,487
February	12,107	26.4	11,811	7.5	296
March	13,971	30.2	12,930	9.4	1,040
April	12,837	27.9	12,408	2.9	429
May	12,636	20.5	12,650	2.5	-14
June	12,754	15.9	11,295	-6.1	1,459
July	13,606	18.9	12,096	-2.7	1,509
August	11,794	13.4	11,044	-1.4	750
September	13,151	12.7	10,842	0.6	2,309
October	13,506	13.5	11,380	-6.8	2,126
November	11,699	5.2	11,845	4.3	-146
December	14,512	0.4	13,043	1.2	1,469

Source: Ministry of Finance

Table 22: Japan's Exports and Imports in Yen Terms, 1977-1981

(in billions of yen, customs clearance basis, seasonally unadjusted)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1977	¥21,648	8.6%	¥19,132	-0.5%	¥2,516
1978	20,556	-5.0	16,728	-12.6	3,828
1979	22,532	9.6	24,245	44.9	-1,714
1980	29,383	30.4	31,995	32.0	-2,613
1981	33,469	13.9	31,464	-1.7	2,005
1980 January	1,656	38.9	2,481	68.1	-825
February	2,304	48.9	2,640	79.0	-336
March	2,655	37.9	2,923	69.1	-269
April	2,535	51.4	3,043	73.5	-508
May	2,494	38.9	2,947	49.4	-454
June	2,435	27.7	2,665	43.7	-230
July	2,495	28.9	2,708	36.4	-213
August	2,336	30.0	2,518	16.7	-182
September	2,553	24.2	2,361	6.4	191
October	2,501	24.7	2,566	10.5	-66
November	2,349	14.6	2,399	-6.9	-50
December	3,071	15.9	2,743	0.7	328
1981 January	1,925	16.2	2,437	-1.8	-512
February	2,464	6.9	2,403	-9.0	61
March	2,903	9.3	2,687	-8.1	216
April	2,723	7.4	2,630	-13.6	94
May	2,748	10.2	2,747	-6.8	1
June	2,857	17.3	2,529	-5.1	328
July	3,083	23.6	2,740	1.2	343
August	2,784	19.2	2,610	3.7	174
September	3,028	18.6	2,497	5.8	532
October	3,093	23.7	2,608	1.6	486
November	2,692	14.6	2,731	15.4	-39
December	3,166	3.1	2,845	3.7	321

Source: Ministry of Finance

Table 23: Japan's Export and Import Quantum (Volume) Indexes, 1977-1981

(1975 = 100)

	Exports		Imports	
	Index	Change Over Year- Earlier Period	Index	Change Over Year- Earlier Period
1977	132.8	9.5%	111.2	3.1%
1978	131.2	-1.2	118.3	6.4
1979	130.5	-0.5	131.4	11.1
1980	154.0	18.0	123.6	-5.9
1981	170.2	10.5	120.9	-2.2
1980 January	104.5	10.8	119.2	-6.7
February	141.9	23.1	119.7	-2.3
March	163.7	14.2	125.2	-8.0
April	151.1	25.8	129.4	-1.4
May	152.6	19.5	130.4	-5.5
June	156.0	16.9	126.5	-0.2
July	163.2	30.0	129.0	-0.2
August	145.9	17.4	117.0	-12.3
September	161.2	15.5	112.6	-13.5
October	160.8	19.6	126.4	-4.5
November	152.9	15.7	116.8	-12.6
December	194.2	13.8	131.2	-3.4
1981 January	119.4	14.3	120.0	0.7
February	158.6	11.8	116.0	-3.1
March	184.3	12.6	125.6	0.3
April	171.2	13.3	122.4	-5.4
May	167.8	10.0	123.8	-5.1
June	174.2	11.7	114.3	-9.6
July	187.7	15.0	122.5	-5.0
August	166.0	13.8	114.5	-2.1
September	183.7	14.0	112.4	-0.2
October	177.3	10.3	119.3	-5.6
November	158.3	3.5	124.5	6.6
December	193.9	-0.2	135.9	3.6

Source: Ministry of Finance

Table 24: Japan's Exports by Country, 1977-1981

(in millions of dollars, f.o.b. value basis)

	1977	1978	1979	1980	1981
Total Exports	\$80,495	\$97,543	\$103,032	\$129,807	\$152,030
Developed Countries	38,002	45,674	48,759	61,172	73,668
United States	19,717	24,915	26,403	31,367	38,609
Canada	1,708	1,871	1,738	2,437	3,399
Western Europe	13,045	14,797	16,434	21,503	23,748
United Kingdom	1,950	2,341	3,097	3,782	4,789
Netherlands	1,305	1,599	1,671	2,061	1,902
France	1,006	1,103	1,395	2,021	2,222
West Germany	2,782	3,654	4,266	5,756	5,968
European Community	8,736	11,105	12,685	16,650	18,894
Australia	2,330	2,692	2,607	3,389	4,779
New Zealand	446	419	585	676	912
South Africa	757	979	993	1,800	2,222
Developing Countries	37,582	45,219	46,889	59,480	68,848
Latin America	6,292	6,621	6,555	8,918	10,516
Mexico	451	639	841	1,224	1,705
Panama	1,329	1,446	895	1,416	2,210
Venezuela	917	771	785	835	925
Brazil	840	1,253	1,125	1,115	1,367
Southeast Asia	17,126	23,102	26,128	30,910	34,426
Korea	4,080	6,003	6,247	5,368	5,658
Taiwan	2,553	3,585	4,337	5,146	5,405
Hong Kong	2,320	3,088	3,379	4,761	5,311
Thailand	1,360	1,528	1,714	1,916	2,251
Singapore	1,719	2,325	2,679	3,911	4,468
Malaysia	863	1,157	1,507	2,061	2,424
Brunei	47	50	76	88	93
Philippines	1,100	1,546	1,622	1,683	1,928
Indonesia	1,798	2,095	2,124	3,458	4,123
India	504	730	780	915	1,197
Middle East and North Africa	8,884	10,745	10,735	14,359	17,732
Iran	1,926	2,691	925	1,530	1,486
Iraq	872	952	1,609	2,169	3,026
Saudi Arabia	2,342	3,254	3,829	4,856	5,876
Kuwait	936	774	886	1,273	1,648
United Arab Emirates	846	1,015	1,045	1,356	1,494
Subsaharan Africa	5,026	4,444	3,147	4,886	5,760
Liberia	2,487	1,646	931	1,416	1,690
Nigeria	1,010	953	807	1,494	2,159
Communist Countries	4,910	6,650	7,383	9,156	9,514
China	1,939	3,049	3,699	5,078	5,095
U.S.S.R.	1,934	2,502	2,462	2,778	3,259

Source: Ministry of Finance

Table 25: Japan's Imports by Country, 1977-1981

(in millions of dollars, c.i.f. value basis)

	1977	1978	1979	1980	1981
Total Imports	\$70,809	\$79,343	\$110,672	\$140,528	\$143,290
Developed Countries	27,542	33,050	43,044	49,120	51,336
United States	12,396	14,790	20,431	24,408	25,297
Canada	2,881	3,191	4,105	4,724	4,464
Western Europe	5,575	8,089	10,106	10,437	11,541
United Kingdom	959	1,379	1,681	1,954	2,694
Netherlands	298	318	419	380	427
France	561	754	1,078	1,296	1,171
West Germany	1,496	1,998	2,584	2,501	2,429
European Community	4,195	6,072	7,581	7,842	8,552
Australia	5,288	5,300	6,298	6,982	7,419
New Zealand	507	639	805	828	887
South Africa	896	1,042	1,299	1,741	1,728
Developing Countries	39,947	42,429	62,234	84,733	84,223
Latin America	3,065	3,047	4,517	5,700	6,669
Mexico	301	356	483	934	1,437
Panama	29	86	179	61	131
Venezuela	49	50	142	691	912
Brazil	947	787	1,240	1,561	1,578
Southeast Asia	15,077	17,294	26,195	31,751	31,930
Korea	2,114	2,591	3,359	2,996	3,389
Taiwan	1,289	1,750	2,476	2,293	2,523
Hong Kong	348	498	664	569	669
Thailand	748	843	1,169	1,119	1,061
Singapore	687	869	1,473	1,507	1,944
Malaysia	1,561	1,900	3,257	3,471	2,927
Brunei	1,420	1,394	1,891	3,245	2,907
Philippines	897	1,058	1,583	1,951	1,731
Indonesia	4,997	5,247	8,794	13,167	13,305
India	800	793	1,053	1,014	1,057
Middle East and North Africa	20,505	20,777	29,377	44,500	42,670
Iran	4,243	4,244	4,271	4,101	1,920
Iraq	735	777	1,816	4,339	934
Saudi Arabia	8,506	8,450	12,134	19,538	21,482
Kuwait	2,488	2,482	4,414	3,458	3,609
United Arab Emirates	2,748	2,622	3,633	8,190	8,836
Subsaharan Africa	945	945	1,629	2,139	2,404
Liberia	12	191	425	338	312
Nigeria	20	8	43	120	340
Communist Countries	3,318	3,862	5,392	6,669	7,724
China	1,547	2,030	2,955	4,323	5,292
U.S.S.R.	1,422	1,442	1,911	1,860	2,021

Source: Ministry of Finance

Table 26: Japan's Exports by Commodity, 1977-1981

(in millions of dollars, f.o.b. value basis)

	1977	1978	1979	1980	1981
Total Exports	\$80,495	\$97,543	\$103,032	\$129,807	\$152,030
<u>Food and Live Animals</u>	803	950	1,069	1,446	1,583
Fish and Fish Products	554	621	608	809	757
<u>Beverages and Tobacco</u>	67	97	138	142	156
<u>Crude Materials (excl. fuels)</u>	992	1,051	1,153	1,355	1,381
Textile Fibers and Waste	530	557	561	702	762
<u>Mineral Fuels</u>	156	261	356	504	554
<u>Animal and Vegetable Oils and Fats</u>	74	119	115	114	96
<u>Chemicals</u>	4,300	5,102	6,100	6,767	6,841
Chemical Elements and Compounds	1,997	2,316	2,822	3,051	2,961
Organic Chemicals	1,568	1,812	2,209	2,276	2,184
Inorganic Chemicals	425	498	604	768	767
Plastic Materials	1,225	1,417	1,675	1,867	1,915
<u>Manufactured Goods Classified Mainly by Material</u>	20,631	23,141	26,140	31,171	33,687
Tires and Other Rubber Manufactures	870	970	1,142	1,677	2,002
Paper and Paper Products	482	563	717	854	878
Textiles (excl. fibers and apparel)	3,707	3,827	3,997	5,094	5,833
Yarn and Thread	811	758	768	1,150	1,253
Woven Fabrics	2,426	2,582	2,742	3,331	3,937
Made-up Articles (excl. clothing)	471	487	487	613	643
Nonmetallic Mineral Manufactures	1,146	1,379	1,547	1,863	2,122
Iron and Steel	10,519	11,855	14,113	15,454	16,669
Bars, Rods, Shapes and Sections	1,299	1,299	1,955	2,222	2,015
Wire Rods	516	602	723	782	539
Universals, Plates and Sheets	4,532	4,607	5,168	5,388	4,989
Hoops and Strip	1,303	1,481	1,854	1,794	1,402
Tubes, Pipes and Fittings	2,346	3,412	3,915	4,747	7,218
Nonferrous Metals	865	1,035	1,139	1,917	1,467
Copper and Alloys	416	484	591	1,112	637
Metal Manufactures	2,701	3,152	3,127	3,947	4,320
Finished Structural Parts and Structures	620	709	617	1,006	1,045
Nails and Industrial Fasteners	446	497	506	508	513
Tools	371	448	476	606	643
<u>Machinery and Transport Equipment</u>	44,747	55,526	55,284	71,156	86,362
Nonelectric Machinery	10,097	14,187	14,872	18,089	22,628
Power Generating Machinery	1,710	2,375	2,103	2,548	3,174
Internal Combustion Engines	1,012	1,347	1,433	1,787	2,294
Agricultural Machinery	507	776	879	918	1,082

(continued)

Table 26: Japan's Exports by Commodity, 1977-1981 (continued)

(in millions of dollars, f.o.b. value basis)

	1977	1978	1979	1980	1981
Office Machinery	\$ 1,131	\$ 1,654	\$ 1,831	\$ 2,280	\$ 2,637
Calculators	459	635	654	795	629
Data-Processing Equipment	154	340	372	542	873
Metalworking Machinery	805	1,265	1,534	1,743	2,071
Lathes	155	292	376	524	577
Textile Machinery	500	649	716	871	882
Construction and Mining Machinery	575	808	1,012	1,314	1,722
Excavators	144	263	373	502	673
Heating and Cooling Machinery	1,030	1,261	1,133	1,524	2,554
Pumps and Centrifuges	707	1,068	1,035	1,219	1,791
Mechanical Handling Equipment	763	935	959	1,313	1,614
Bearings	370	423	482	556	590
Electric Machinery	11,242	13,899	14,690	18,695	22,466
Electric Power Machinery	923	1,323	1,243	1,503	2,039
Generators	289	427	375	451	645
Insulated Wire and Cable	394	484	583	765	947
Telecommunications Equipment	5,895	6,604	6,590	8,158	9,801
Televisions	1,329	1,318	1,283	1,660	1,929
Radios	2,434	2,636	2,497	3,009	3,223
Microphones, Loudspeakers and Amplifiers	569	808	815	1,044	1,112
Household Electric Appliances	634	781	736	1,055	1,310
Electronic Tubes and Semiconductors	860	1,269	1,679	2,307	2,662
Transport Equipment	23,408	27,440	25,721	34,373	41,267
Railway Equipment	497	648	520	676	495
Road Motor Vehicles	11,552	15,531	17,021	23,273	26,521
Cars	8,004	10,617	11,964	16,115	18,445
Assembled Trucks and Buses	2,044	2,885	3,119	4,681	6,069
Truck and Bus Chassis with Engines	1,452	1,960	1,879	2,373	1,896
Road Motor Vehicle Parts	1,127	1,623	1,743	2,015	2,565
Motorcycles and Parts	1,816	2,144	2,190	3,179	3,813
Ships and Boats	2,129	7,173	3,869	4,682	7,274
Tankers	1,238	548	509	986	1,753
Cargo Ships	5,466	4,120	1,972	1,753	2,657
Miscellaneous Manufactured Goods	8,027	10,460	11,563	15,557	19,985
Clothing	463	486	351	500	578
Scientific, Medical and Optical Instruments	2,548	3,448	3,861	4,526	5,512
Camera Lenses	291	418	488	551	656
Still Cameras	560	806	901	991	1,091
Watches and Clocks	958	1,277	1,286	1,734	2,014
Stereo Equipment and Audio and Video Tape Recorders and Players	1,097	1,662	2,102	4,066	6,274
Unclassified Commodities	699	836	1,114	1,596	1,386

Source: Ministry of Finance

Table 27: Japan's Imports by Commodity, 1977-1981

(in millions of dollars, c.i.f. value basis)

	1977	1978	1979	1980	1981
Total Imports	\$70,809	\$79,343	\$110,672	\$140,528	\$143,290
Food and Live Animals	9,624	10,786	13,683	13,954	15,122
Meat and Meat Products	958	1,296	1,713	1,523	1,927
Fish and Fish Products	2,196	3,017	3,957	3,026	3,653
Fresh or Frozen Shrimp and Lobster	821	1,076	1,440	1,106	1,277
Grains and Cereal Products	2,819	3,064	3,719	4,426	4,990
Wheat	739	828	1,090	1,229	1,273
Corn for Mixed Feeds	789	903	1,088	1,507	1,867
Sorghum for Mixed Feeds	517	488	607	591	546
Fruits and Vegetables	932	1,151	1,356	1,387	1,678
Sugar	726	592	708	1,225	732
Coffee	726	416	744	757	543
Animal Feeds	464	373	485	586	509
Beverages and Tobacco	481	617	733	712	792
Unmanufactured Tobacco	288	359	358	364	422
Crude Materials (excl. fuels)	14,108	15,105	21,842	23,458	19,720
Oilseeds and Oil Nuts	1,532	1,572	1,842	1,880	2,018
Soybeans	1,093	1,131	1,272	1,310	1,396
Rubber	284	398	552	726	625
Logs and Lumber	3,816	4,149	7,353	6,909	4,459
Logs	3,311	3,557	6,270	5,680	3,674
Wood Pulp	394	535	734	1,079	863
Textile Fibers and Waste	2,002	2,103	2,449	2,393	2,404
Wool	587	598	726	689	688
Cotton	1,152	1,068	1,264	1,359	1,416
Crude Minerals	511	546	716	877	801
Metal Ores, Concentrates and Scrap	4,777	4,837	6,850	8,430	7,284
Iron Ore and Concentrates	2,554	2,453	2,999	3,449	3,504
Nonferrous Metal Ores	1,914	1,754	2,879	3,731	3,011
Copper	884	939	1,512	2,040	1,676
Nonferrous Scrap	174	287	479	752	502
Mineral Fuels	31,149	31,336	45,286	69,991	72,563
Coal	3,547	3,077	3,549	4,458	5,521
Coking Coal	3,443	2,979	3,428	4,083	4,685
Petroleum and Products	25,790	25,706	37,971	57,851	58,674
Crude Petroleum	23,573	23,433	33,471	52,763	53,343
Petroleum Products	2,217	2,273	4,500	5,088	5,331
Residual Fuel Oil	1,191	1,021	2,053	2,215	1,848
Natural and Manufactured Gas	1,797	2,546	3,760	7,671	8,357
Liquefied Petroleum Gas	1,028	1,174	1,744	3,192	3,234
Animal and Vegetable Oils and Fats	235	275	354	303	315

(continued)

Table 27: Japan's Imports by Commodity, 1977-1981 (continued)

(in millions of dollars, c.i.f. value basis)

	1977	1978	1979	1980	1981
<u>Chemicals</u>	\$3,003	\$3,763	\$5,178	\$ 6,202	\$ 6,487
Chemical Elements and Compounds	1,189	1,514	2,255	2,834	3,028
Organic Chemicals	669	884	1,464	1,679	1,847
Inorganic Chemicals	316	395	533	642	669
Pharmaceuticals	612	821	924	1,074	1,150
Plastic Materials	255	345	507	563	644
<u>Manufactured Goods Classified Mainly by Material</u>	4,611	6,640	9,411	10,579	10,158
Wood Manufactures	589	642	801	1,169	912
Wood Chips	490	508	594	949	745
Textiles (excl. fibers and apparel)	864	1,496	2,031	1,650	1,628
Nonmetallic Mineral Manufactures	608	984	1,146	1,136	1,118
Iron and Steel	255	399	899	894	1,067
Nonferrous Metals	1,726	2,354	3,416	4,480	4,189
Copper and Alloys	380	456	741	684	639
Aluminum and Alloys	562	846	1,030	1,611	1,849
<u>Machinery and Transport Equipment</u>	4,291	5,716	7,331	8,756	9,240
Nonelectric Machinery	2,235	2,489	3,196	3,789	3,597
Power Generating Machinery	406	387	400	523	488
Office Machinery	603	597	783	1,032	1,027
Computers, Peripheral Equipment and Parts	563	550	732	981	967
Electric Machinery	1,348	1,733	2,364	2,722	2,939
Electronic Tubes and Semiconductors	341	435	639	713	789
Telecommunications Equipment	211	282	321	348	411
Electronic Measuring and Controlling Instruments	201	259	399	482	499
Transport Equipment	708	1,494	1,771	2,246	2,703
Cars	285	413	575	452	326
Aircraft	201	396	743	991	1,340
Ships and Boats	130	543	254	575	844
<u>Miscellaneous Manufactured Goods</u>	2,746	3,874	5,214	5,031	5,386
Clothing	869	1,235	1,801	1,530	1,802
Scientific, Medical and Optical Instruments	408	540	735	802	765
<u>Unclassified Commodities</u>	562	1,231	1,642	1,543	3,509

Source: Ministry of Finance

Table 28: Yen-Dollar Exchange Rate Used to Convert
Customs Clearance Trade Data, 1977-1981*

	Exports	Imports
1977 Average	¥270.42	¥270.53
1978 Average	212.18	212.17
1979 Average	217.47	217.46
1980 Average	227.67	227.85
1981 Average	219.90	219.94
1980 January	237.40	237.68
February	240.46	240.35
March	247.45	247.44
April	252.52	252.39
May	237.75	238.71
June	221.17	221.44
July	217.95	217.95
August	224.66	224.85
September	218.73	219.10
October	210.24	210.18
November	211.28	211.28
December	212.42	212.85
1981 January	203.50	203.99
February	203.50	203.44
March	207.76	207.80
April	212.25	211.99
May	217.51	217.18
June	223.99	223.89
July	226.62	226.55
August	236.07	236.35
September	230.27	230.26
October	229.05	229.15
November	230.15	230.56
December	218.18	218.15

*Reflects the exchange rate that prevailed at the
time export or import contracts were signed.

Source: Ministry of Finance

Table 29: Yen-Dollar Exchange Rate on Tokyo
Foreign Exchange Market, 1977-1981

(inter-bank rates, middle rate,
spot market for overnight delivery)

1977 Average	¥268.51
1978 Average	210.40
1979 Average	219.14
1980 Average	226.75
1981 Average	220.53
1980 January	237.96
February	244.05
March	248.62
April	251.67
May	228.80
June	218.05
July	220.95
August	224.45
September	214.85
October	209.12
November	213.04
December	209.86
1981 January	202.00
February	205.89
March	208.82
April	215.14
May	220.66
June	224.20
July	231.96
August	233.69
September	230.02
October	231.37
November	223.74
December	218.84

Source: Bank of Japan

Table 30: Japan's Dollar-Based Trade with the United States, 1977-1981

(in millions of dollars, customs clearance basis, seasonally unadjusted)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1977	\$19,717	25.7%	\$12,396	5.0%	\$ 7,321
1978	24,915	26.4	14,790	19.3	10,125
1979	26,403	6.0	20,431	38.1	5,972
1980	31,367	18.8	24,408	19.5	6,959
1981	38,609	23.1	25,297	3.6	13,312
1980 January	1,999	23.2	1,821	23.5	178
February	2,425	19.2	1,987	32.8	438
March	2,650	14.9	2,006	15.9	644
April	2,595	32.0	2,044	27.8	551
May	2,515	18.1	2,186	27.2	330
June	2,730	21.9	2,073	25.5	657
July	2,748	20.6	2,092	20.6	656
August	2,423	10.7	2,019	8.0	404
September	2,685	9.6	1,942	14.4	743
October	2,829	27.7	2,086	10.6	743
November	2,633	17.6	1,894	6.6	739
December	3,135	14.6	2,259	25.8	876
1981 January	2,333	16.7	2,088	14.7	245
February	2,888	19.1	2,152	8.3	736
March	3,172	19.7	2,333	16.3	839
April	3,079	18.7	2,274	11.3	805
May	3,048	21.2	1,938	-11.3	1,111
June	3,257	19.3	2,058	-0.7	1,199
July	3,454	25.7	2,111	0.9	1,343
August	3,097	27.5	1,951	-3.4	1,139
September	3,607	34.3	1,859	-4.3	1,748
October	3,564	26.0	2,033	-2.5	1,531
November	3,284	24.7	2,010	6.1	1,273
December	3,834	22.3	2,491	10.3	1,343

Source: Ministry of Finance

Table 31: Japan's Yen-Based Trade with the United States, 1977-1981

(in billions of yen, customs clearance basis, seasonally unadjusted)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1977	¥5,292	13.7%	¥3,357	-4.2%	¥1,935
1978	5,259	-0.6	3,109	-7.4	2,153
1979	5,773	9.8	4,457	43.4	1,316
1980	7,118	23.3	5,558	24.7	1,560
1981	8,519	19.7	5,552	-0.1	2,966
1980 January	475	49.4	433	49.8	42
February	583	44.0	478	60.4	105
March	656	39.6	496	40.9	160
April	655	57.5	516	53.1	139
May	598	28.9	522	39.6	76
June	604	27.8	459	26.4	145
July	599	21.0	456	21.0	143
August	544	15.0	454	12.4	90
September	587	8.7	425	13.6	162
October	595	19.0	438	3.1	157
November	556	4.1	400	-5.7	156
December	666	-0.1	481	9.6	185
1981 January	475	0.0	426	-1.6	49
February	588	0.9	438	-8.4	150
March	659	0.5	485	-2.2	174
April	653	-0.3	482	-6.6	171
May	663	10.9	421	-19.3	242
June	730	20.9	461	0.4	269
July	783	30.7	478	4.8	304
August	729	34.0	461	1.5	268
September	831	41.6	428	0.7	403
October	816	37.1	466	6.4	350
November	756	36.0	463	15.8	292
December	836	25.5	543	12.9	293

Source: Ministry of Finance

Table 32: U.S. International Transactions, 1980-1981

(in millions of dollars, IMF value basis)

	<u>1980</u>	<u>1981(p)</u>
Merchandise Trade Balance	\$-25,342	\$-27,817
Exports	223,966	236,300
Imports	249,308	264,117
Services Balance	36,123	41,418
Military	-2,515	-1,943
Travel	-1,332	-1,266
Other Transportation	534	758
Investment Income	32,762	36,757
Direct	27,506	22,474
Other	5,256	14,283
Fees and Royalties	6,096	6,212
Other Services	578	640
Unilateral Transfer Balance	-7,056	-6,762
Current Account Balance	3,725	6,839
Private Capital Flows (net)	36,687	27,117
Direct Investments (net)	7,692	11,669
Banking Flows (net)	36,204	43,130
Other Flows (net)	-7,209	n.a.
U.S. Government Assets (other than official reserves) (net)	-5,165	-5,138
U.S. Official Reserve Assets	-8,155	-5,175
Foreign Official Reserve Assets	15,492	5,208
Allocations of Special Drawing Rights	1,152	1,093
Statistical Discrepancy	29,640	24,551

Note: For capital transactions, credits(+) indicate inflows and debits(-) indicate outflows.

Source: U.S. Department of Commerce

Table 33: U.S. Exports and Imports, 1977-1981

(in millions of dollars, f.a.s. value basis, seasonally unadjusted)

	Exports*	Change Over Year-Earlier Period	Imports	Change Over Year-Earlier Period	Trade Balance
1977	\$121,212	5.1%	\$147,685	22.1%	\$-26,473
1978	143,663	18.5	171,978	16.4	-28,315
1979	181,816	26.6	206,256	19.9	-24,440
1980	220,783	21.4	244,871	18.7	-24,088
1981	233,739	5.9	261,305	6.7	-27,556
1980 January	16,372	30.3	20,705	30.7	-4,333
February	16,977	31.3	21,057	45.6	-4,080
March	19,694	26.3	21,231	34.7	-1,537
April	19,154	34.2	20,089	25.5	-935
May	18,772	26.7	20,770	25.8	-1,998
June	18,682	21.6	20,869	19.7	-2,187
July	17,217	16.9	19,529	14.1	-2,312
August	17,947	19.5	19,125	6.7	-1,178
September	17,835	19.4	19,539	8.1	-1,704
October	19,965	15.5	20,645	7.3	-680
November	18,618	7.5	19,796	6.1	-1,178
December	19,551	15.1	21,514	9.0	-1,963
1981 January	17,964	9.7	22,577	9.0	-4,613
February	18,845	11.0	21,124	5.3	-2,279
March	22,929	16.4	21,363	0.6	1,566
April	20,512	7.1	22,775	13.4	-2,263
May	19,989	6.5	21,454	3.3	-1,465
June	20,262	8.5	22,522	7.9	-2,260
July	18,569	7.9	20,350	4.2	-1,781
August	17,766	-1.0	22,618	18.3	-4,852
September	18,819	5.5	20,749	6.2	-1,930
October	19,897	-0.3	23,555	14.1	-3,658
November	19,048	2.3	22,555	13.9	-3,507
December	19,140	-2.1	19,663	-8.6	-523

*Domestic and foreign merchandise, including Department of Defense shipments.

Source: U.S. Department of Commerce

Table 34: U.S. Exports and Imports by Country, 1980-1981

(in millions of dollars, f.a.s. value basis)

	Exports		Imports		Trade Balance	
	1980	1981	1980	1981	1980	1981
<u>Total</u>	<u>\$220,783</u>	<u>\$233,739</u>	<u>\$244,871</u>	<u>\$261,305</u>	<u>\$-24,088</u>	<u>\$-27,566</u>
<u>Japan</u>	<u>20,790</u>	<u>21,823</u>	<u>30,714</u>	<u>37,612</u>	<u>-9,924</u>	<u>-15,789</u>
<u>Western Europe</u>	<u>67,512</u>	<u>65,377</u>	<u>46,602</u>	<u>51,855</u>	<u>20,910</u>	<u>13,522</u>
United Kingdom	12,694	12,439	9,842	12,835	2,852	-396
West Germany	10,960	10,277	11,693	11,379	-733	-1,102
Netherlands	8,669	8,595	1,913	2,366	6,756	6,229
France	7,485	7,341	5,265	5,851	2,220	1,490
Belgium-Luxembourg	6,661	5,765	1,914	2,297	4,747	3,468
Italy	5,511	5,360	4,325	5,189	1,186	171
Total EC Countries	53,679	52,363	36,092	41,624	17,587	10,739
Spain	3,179	3,397	1,220	1,533	1,959	1,864
Switzerland	3,781	3,022	2,803	2,448	978	574
Sweden	1,767	1,842	1,617	1,714	150	225
<u>Canada</u>	<u>35,395</u>	<u>39,564</u>	<u>41,459</u>	<u>46,414</u>	<u>-6,064</u>	<u>-6,850</u>
<u>Asia (excl. Japan)</u>	<u>35,622</u>	<u>38,413</u>	<u>48,526</u>	<u>52,524</u>	<u>-12,904</u>	<u>-14,111</u>
Saudi Arabia	5,769	7,327	12,648	14,391	-6,879	-7,064
Korea	4,685	5,116	4,147	5,141	538	-25
Taiwan	4,337	4,305	6,854	8,049	-2,517	-3,774
Singapore	3,033	3,003	1,921	2,114	1,112	889
Hong Kong	2,686	2,635	4,739	5,428	-2,053	-2,793
Israel	2,045	2,521	950	1,243	1,095	1,278
Philippines	1,999	1,787	1,731	1,964	268	-177
India	1,689	1,748	1,098	1,202	591	546
Malaysia	1,337	1,537	2,577	2,183	-1,240	-646
Indonesia	1,545	1,302	5,217	6,022	-3,672	-4,720
<u>Western Hemisphere (excl. Canada)</u>	<u>38,718</u>	<u>42,102</u>	<u>37,228</u>	<u>39,022</u>	<u>1,490</u>	<u>3,080</u>
Mexico	15,145	17,789	12,580	13,765	2,565	4,024
Venezuela	4,573	5,445	5,321	5,566	-748	-121
Brazil	4,344	3,798	3,715	4,475	629	-677
Argentina	2,625	2,192	741	1,124	1,884	1,068
Colombia	1,736	1,771	1,241	819	495	952
<u>Africa</u>	<u>9,060</u>	<u>11,097</u>	<u>34,410</u>	<u>27,071</u>	<u>-25,350</u>	<u>-15,974</u>
South Africa	2,464	2,912	3,321	2,445	-857	467
Egypt	1,874	2,159	539	397	1,335	1,762
Nigeria	1,150	1,523	11,105	9,249	-9,955	-7,726
<u>Australia and Oceania</u>	<u>4,876</u>	<u>6,436</u>	<u>3,392</u>	<u>3,353</u>	<u>1,484</u>	<u>3,083</u>
Australia	4,093	5,242	2,509	2,465	1,584	2,777
<u>Eastern Europe</u>	<u>3,860</u>	<u>4,338</u>	<u>1,437</u>	<u>1,555</u>	<u>2,423</u>	<u>2,783</u>
Soviet Union	1,513	2,431	454	348	1,059	2,083
<u>Communist Countries in Asia</u>	<u>3,756</u>	<u>3,613</u>	<u>1,059</u>	<u>1,897</u>	<u>2,697</u>	<u>1,716</u>
China	3,755	3,603	1,057	1,892	2,698	1,711

Source: U.S. Department of Commerce

Table 35: U.S. Exports by Commodity, 1980-1981

(in millions of dollars, f.a.s. value basis)

	1980	1981		1980	1981
<u>Total Exports*</u>	<u>\$216,592</u>	<u>\$228,961</u>	Steel Mill Products	\$ 2,998	\$ 2,801
<u>Agricultural Commodities</u>	<u>41,256</u>	<u>43,338</u>	Nonferrous Metals and Alloys	2,964	2,046
<u>Nonagricultural Commodities</u>	<u>175,336</u>	<u>185,623</u>	Metal Manufactures	4,205	4,769
<u>Food and Live Animals</u>	<u>27,744</u>	<u>30,291</u>	<u>Machinery and Transport Equipment</u>	<u>84,629</u>	<u>95,736</u>
Meat and Meat Products	1,293	1,482	Machinery	55,790	62,946
Fish and Fish Products	914	1,083	Power Generating Machinery	8,428	9,465
Grain and Cereal Products	18,079	19,457	Aircraft Engines and Parts	1,915	2,348
Wheat	6,375	7,844	Automotive Engines and Parts	1,688	1,975
Corn	8,570	8,014	Agricultural Machinery and Parts	3,104	3,523
Sorghum	1,080	1,174	and Tractors	1,628	1,823
Rice	1,285	1,526	Construction Equipment and Parts	3,140	4,073
Vegetables and Fruit	2,930	3,314	Mining Machinery and Parts		
Animal Feeds	2,878	2,739	Printing and Bookbinding		
<u>Beverages and Tobacco</u>	<u>2,663</u>	<u>2,915</u>	Machinery and Parts	631	729
Unmanufactured Tobacco	1,334	1,458	Metalworking Machinery	1,756	2,158
Cigarettes	1,055	1,229	Heating and Cooling Machinery	2,347	2,524
<u>Inedible Crude Materials</u>	<u>23,791</u>	<u>20,993</u>	Pumps and Parts	1,037	1,182
Hides and Skins	694	700	Centrifuges and Filtering and		
Soybeans	5,883	6,200	Purifying Machinery and Parts	725	803
Logs and Lumber	2,675	2,059	Office Machinery and Computers	8,709	9,810
Paper Base Stocks	2,454	2,315	Computers and Parts	4,791	5,157
Raw Cotton	2,864	2,260	Telecommunications Equipment	3,454	3,856
Steel Scrap	1,226	639	Electric Machinery and Parts	10,485	11,494
Nonferrous Ores and Scrap	3,019	1,835	Electric Power Apparatus		
<u>Mineral Fuels</u>	<u>7,982</u>	<u>10,279</u>	and Switchgear	2,179	2,495
Bituminous Coal	4,523	5,806	Household Appliances	796	841
Petroleum and Products	2,833	3,696	Transport Equipment	28,839	32,791
<u>Animal and Vegetable Oils and Fats</u>	<u>1,946</u>	<u>1,750</u>	Passenger Cars	3,919	3,920
<u>Chemicals</u>	<u>20,740</u>	<u>21,187</u>	Trucks and Buses	2,037	2,149
Chemical Elements and Compounds	8,636	9,202	Car and Truck Parts	6,058	3,157
Organic Chemicals	5,697	5,929	Tractor Parts	1,473	1,481
Inorganic Chemicals	2,938	3,274	Commercial Aircraft	8,256	8,613
Pharmaceuticals	1,932	2,165	Military Aircraft	949	1,712
Manufactured Fertilizers	2,265	1,735	Aircraft Parts	3,555	4,286
Plastic Materials	3,884	3,809	<u>Miscellaneous Manufactured Goods</u>	<u>16,347</u>	<u>16,748</u>
<u>Manufactured Goods Classified</u>			Clothing	1,203	1,232
<u>Chiefly by Material</u>	<u>22,255</u>	<u>20,633</u>	Professional, Scientific and		
Paper and Paper Products	2,831	2,961	Medical Equipment and Measuring		
Textiles (excl. clothing)	3,632	3,619	and Controlling Instruments	5,256	5,980
Nonmetallic Mineral Products	2,209	2,194	Photographic Supplies	1,507	1,501
			Printed Material	4,097	1,297
			Toys and Sporting Goods	1,012	1,072
			Musical Instruments and Parts	816	952
			<u>Unclassified Commodities</u>	<u>8,496</u>	<u>8,428</u>

*Domestic merchandise only, including Department of Defense shipments.

Source: U.S. Department of Commerce

Table 36: U.S. Imports by Commodity, 1980-1981

(in millions of dollars, f.a.s. value basis)

	1980	1981		1980	1981
<u>Total Imports</u>	<u>\$244,871</u>	<u>\$261,305</u>	Glass, Glassware and Tableware	\$ 1,228	\$ 1,349
<u>Agricultural Commodities</u>	<u>17,433</u>	<u>17,003</u>	Gem Diamonds	2,252	2,198
<u>Nonagricultural Commodities</u>	<u>227,438</u>	<u>244,301</u>	Steel Mill Products	6,693	10,347
<u>Food and Live Animals</u>	<u>15,766</u>	<u>15,238</u>	Wire Rods and Bars	1,421	1,747
Meat and Meat Products	2,346	1,996	Plates and Sheets	2,505	2,998
Fish and Fish Products	2,613	2,962	Tubes, Pipes and Fittings	2,193	4,836
Vegetables and Fruit	2,048	2,587	Nonferrous Metals and Alloys	7,623	6,952
Sugar	1,988	2,142	Precious Metals	2,440	1,581
Coffee	3,872	2,622	Copper and Alloys	1,470	1,279
			Aluminum and Alloys	974	1,355
<u>Beverages and Tobacco</u>	<u>2,785</u>	<u>3,138</u>	Metal Manufactures	3,732	4,170
Alcoholic Beverages	2,232	2,399	<u>Machinery and Transport Equipment</u>	<u>60,558</u>	<u>69,627</u>
<u>Inedible Crude Materials</u>	<u>10,516</u>	<u>11,193</u>	Machinery	31,915	38,212
Crude Rubber	816	778	Power Generating Machinery		
Lumber	2,134	2,033	(incl. engines)	3,834	4,578
Paper Base Stocks	1,774	1,824	Agricultural Machinery and Tractors	1,373	1,282
Iron Ore and Concentrates	773	951	Textile Machinery	889	974
Nonferrous Ores and Concentrates	1,952	2,038	Metalworking Machinery	1,814	1,992
<u>Mineral Fuels</u>	<u>82,924</u>	<u>81,417</u>	Office Machinery and Computers	2,929	3,563
Petroleum and Petroleum Products	77,637	75,577	Telecommunications Equipment	6,716	8,910
Crude Petroleum	65,717	61,940	Radio Sets	611	702
Petroleum Products	11,920	13,637	Television Sets	1,195	1,515
Fuel Oil	7,789	9,236	Phonographs and Audio		
Natural and Manufactured Gas	5,155	5,720	and Video Recorders	1,332	2,087
<u>Animal and Vegetable Oils and Fats</u>	<u>533</u>	<u>479</u>	Electrical Machinery and Parts	8,064	9,180
<u>Chemicals</u>	<u>8,594</u>	<u>9,446</u>	Transport Equipment	28,643	31,415
Chemical Elements and Compounds	4,854	5,333	Road Motor Vehicles	19,163	21,111
Organic Chemicals	2,541	2,974	Passenger Cars	16,777	17,540
Inorganic Chemicals	2,313	2,359	Automotive Parts (excl. engines,		
Manufactured Fertilizers	1,104	1,181	tires and electrical parts)	4,972	4,106
<u>Manufactured Goods Classified</u>			Motorcycles and Parts	1,256	1,373
<u>Chiefly by Material</u>			Aircraft and Parts	1,885	2,585
Tires and Tubes	1,143	1,331	<u>Miscellaneous Manufactured Goods</u>	<u>23,760</u>	<u>26,179</u>
Plywood and Veneers	633	705	Clothing	6,431	7,537
Paper and Paper Products	3,587	3,875	Footwear	2,809	3,019
Textiles (excl. clothing)	2,499	3,046	Professional, Scientific		
			and Controlling Instruments	1,418	1,655
			Clocks and Watches	1,127	1,276
			Toys and Sporting Goods	1,915	2,167
			Art Works and Antiques	2,672	2,056
			<u>Unclassified Commodities</u>	<u>7,225</u>	<u>7,296</u>

Source: U.S. Department of Commerce

Table 37: U.S. Trade with Japan, 1977-1981

(in millions of dollars, f.a.s. value basis, seasonally unadjusted)

	Exports*	Change Over Year-Earlier Period	Imports	Change Over Year-Earlier Period	Trade Balance
1977	\$10,529	3.8%	\$18,550	19.6%	\$-8,021
1978	12,885	22.4	24,458	31.8	-11,573
1979	17,579	36.4	26,243	7.3	-8,664
1980	20,790	18.3	30,714	17.0	-9,924
1981	21,823	5.0	37,612	22.5	-15,789
1980 January	1,526	24.6	2,496	11.1	-970
February	1,651	21.0	2,250	20.6	-599
March	1,810	12.4	2,385	20.2	-575
April	1,843	39.9	2,565	11.5	-722
May	1,599	27.1	2,657	27.0	-1,058
June	1,788	18.8	2,677	15.4	-889
July	1,718	7.8	2,613	19.7	-895
August	1,752	20.9	2,541	11.6	-789
September	1,682	9.2	2,642	20.7	-960
October	1,800	18.3	2,569	11.7	-769
November	1,793	12.2	2,592	10.3	-799
December	1,829	13.9	2,714	27.1	-885
1981 January	1,742	14.2	3,196	28.0	-1,454
February	1,746	5.8	2,341	4.0	-595
March	2,161	19.4	3,053	28.0	-892
April	1,756	-4.7	3,223	25.7	-1,467
May	1,595	-0.3	3,031	14.1	-1,436
June	1,787	-0.1	3,148	17.6	-1,361
July	1,900	10.6	3,141	20.2	-1,241
August	1,594	-9.0	3,543	39.4	-1,949
September	1,678	-0.2	2,910	10.1	-1,232
October	1,859	3.3	3,699	44.0	-1,840
November	1,940	8.2	3,327	28.4	-1,387
December	2,065	12.9	3,002	10.6	-937

*Domestic and foreign merchandise, including Department of Defense shipments.

Source: U.S. Department of Commerce

Table 38: U.S. Exports to Japan by Commodity, 1980-1981

(in millions of dollars, f.a.s. value basis)

	1980	1981		1980	1981
<u>Total Exports to Japan*</u>	<u>\$20,575</u>	<u>\$21,515</u>	<u>Manufactured Goods Classified</u>		
<u>Agricultural Commodities</u>	<u>6,111</u>	<u>6,562</u>	<u>Chiefly by Material</u>	<u>\$ 1,585</u>	<u>\$ 1,394</u>
<u>Nonagricultural Commodities</u>	<u>14,464</u>	<u>14,953</u>	Paper and Paper Products	271	260
<u>Food and Live Animals</u>	<u>4,254</u>	<u>4,712</u>	Textiles (excl. clothing)	111	124
Meat and Meat Products	384	502	Nonmetallic Mineral Products	121	127
Fish and Fish Products	400	553	Nonferrous Metals and Alloys	605	443
Grain and Cereal Products	2,758	2,876	Metal Manufactures	155	151
Wheat	596	615			
Corn	1,633	1,792	<u>Machinery and Transport Equipment</u>	<u>3,797</u>	<u>4,405</u>
Sorghum	497	410	Machinery	2,511	2,902
Vegetables and Fruit	356	445	Power Generating Machinery	288	342
Animal Feeds	212	152	Aircraft Engines and Parts	129	150
<u>Beverages and Tobacco</u>	<u>253</u>	<u>392</u>	Agricultural Machinery and Parts		
Unmanufactured Tobacco	197	302	and Tractors	47	38
<u>Inedible Crude Materials</u>	<u>5,486</u>	<u>4,407</u>	Mining Machinery and Parts	84	168
Hides and Skins	266	281	Metalworking Machinery	91	94
Soybeans	1,106	1,139	Heating and Cooling Equipment	79	88
Logs and Lumber	1,533	1,021	Centrifuges and Filtering		
Paper Base Stocks	718	549	and Purifying Machinery and Parts	73	67
Raw Cotton	526	504	Office Machinery and Computers	652	759
Steel Scrap	309	118	Computers and Parts	373	402
Nonferrous Ores and Scrap	758	503	Telecommunications Equipment	143	182
<u>Mineral Fuels</u>	<u>1,736</u>	<u>2,097</u>	Electrical Machinery and Parts	550	601
Bituminous Coal	1,311	1,472	Electric Power Apparatus		
Petroleum Products	199	291	and Switchgear	111	120
<u>Animal and Vegetable Oils and Fats</u>	<u>77</u>	<u>91</u>	Transport Equipment	1,286	1,504
<u>Chemicals</u>	<u>1,964</u>	<u>2,349</u>	Road Motor Vehicles and Parts	191	173
Chemical Elements and Compounds	987	1,215	Passenger Cars	60	47
Organic Chemicals	590	686	Aircraft and Parts	1,086	1,310
Inorganic Chemicals	397	529	Commercial Aircraft	678	815
Pharmaceuticals	324	430	Aircraft Parts	403	487
Plastic Materials	226	290			
			<u>Miscellaneous Manufactured Goods</u>	<u>1,227</u>	<u>1,377</u>
			Clothing	78	85
			Professional, Scientific and		
			Medical Equipment and Measuring		
			and Controlling Instruments	484	537
			Photographic Supplies	188	206
			Toys and Sporting Goods	109	118
			Musical Instruments and Parts	72	92
			<u>Unclassified Commodities</u>	<u>89</u>	<u>111</u>

*Domestic merchandise only, including Department of Defense shipments, which totaled \$105 million in 1980 and \$182 million in 1981.

Source: U.S. Department of Commerce

Table 39: U.S. Imports from Japan by Commodity, 1980-1981

(in millions of dollars, f.a.s. value basis)

	1980	1981		1980	1981
<u>Total Imports from Japan</u>	<u>\$30,714</u>	<u>\$37,612</u>	Copper and Alloys	\$ 320	\$ 103
<u>Agricultural Commodities</u>	<u>100</u>	<u>120</u>	Aluminum and Alloys	21	47
<u>Nonagricultural Commodities</u>	<u>30,614</u>	<u>37,492</u>	Metal Manufactures	1,036	1,140
<u>Food and Live Animals</u>	<u>274</u>	<u>265</u>	<u>Machinery and Transport Equipment</u>	<u>20,787</u>	<u>25,522</u>
Fish and Fish Products	208	186	Machinery	8,671	11,856
<u>Beverages and Tobacco</u>	<u>10</u>	<u>15</u>	Power Generating Machinery		
<u>Inedible Crude Materials</u>	<u>54</u>	<u>62</u>	(incl. engines)	554	688
<u>Mineral Fuels</u>	<u>52</u>	<u>23</u>	Agricultural Machinery and Tractors	171	186
<u>Animal and Vegetable Oils and Fats</u>	<u>6</u>	<u>6</u>	Textile Machinery	132	196
<u>Chemicals</u>	<u>697</u>	<u>956</u>	Metalworking Machinery	583	789
Chemicals Elements and Compounds	373	498	Office Machinery and Computers	1,175	1,656
Organic Chemicals	299	412	Telecommunications Equipment	3,134	4,783
Inorganic Chemicals	74	87	Radio Sets	235	271
Pharmaceuticals	67	78	Television Sets	268	446
<u>Manufactured Goods Classified</u>			Phonographs and Audio		
<u>Chiefly by Material</u>	<u>5,664</u>	<u>6,952</u>	and Video Recorders	1,037	1,762
Tires and Tubes	277	377	Transport Equipment	12,116	13,667
Plywood and Veneers	54	49	Road Motor Vehicles	9,147	11,494
Paper and Paper Products	47	58	Passenger Cars	8,359	9,324
Textiles (excl. clothing)	370	513	Automotive Parts (excl. engines,		
Glass, Glassware and Tableware	332	400	tires and electrical parts)	532	487
Steel Mill Products	2,843	3,801	Motorcycles and Parts	1,127	1,297
Wire Rods and Bars	485	502	Aircraft and Parts	93	131
Plates and Sheets	994	901	<u>Miscellaneous Manufactured Goods</u>	<u>2,751</u>	<u>3,480</u>
Tubes, Pipes and Fittings	1,221	2,256	Clothing	203	278
Nonferrous Metals and Alloys	481	318	Professional, Scientific		
			and Controlling Instruments	325	414
			Clocks and Watches	306	419
			Printed Matter	66	79
			Toys and Sporting Goods	270	324
			<u>Unclassified Commodities</u>	<u>408</u>	<u>331</u>

Source: U.S. Department of Commerce

**Table 40: U.S. Direct Investment Position Abroad,
Year-End 1977-1980**

(in millions of dollars)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Developed Countries	\$108,225	\$120,471	\$138,668	\$157,084
Canada	35,200	37,071	40,243	44,640
United Kingdom	17,434	20,416	23,539	28,099
West Germany	11,071	12,731	13,521	15,393
Switzerland	6,101	7,394	9,699	11,276
France	6,090	6,806	8,024	9,348
Netherlands	4,048	4,685	6,910	7,948
Australia	5,739	6,441	7,165	7,584
Belgium-Luxembourg	4,322	4,555	6,390	6,915
Japan	4,143	4,972	6,208	6,274
Italy	3,016	3,595	4,381	5,396
Developing Countries	34,462	40,399	44,525	52,684
International/Unallocated	7,160	6,934	3,567	3,701
Total	149,848	167,804	186,760	213,468
of which:				
Petroleum	31,420	33,790	38,744	46,920
Manufacturing	66,033	74,080	78,640	89,063
Other	52,395	59,934	69,376	77,485

Source: U.S. Department of Commerce

**Table 41: U.S. Direct Investment Position in Japan,
Year-End 1977-1980**

(in millions of dollars)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Total	\$4,143	\$4,972	\$6,208	\$6,274
Mining	0	0	0	0
Petroleum	1,589	1,694	1,906	1,566
Manufacturing	1,903	2,309	2,775	2,990
Food Products	125	142	171	166
Chemicals	406	497	670	696
Metals	8	5	67	82
Machinery	999	1,272	1,245	1,352
Transport Equipment	160	*	251	269
Other	205	*	370	425
Trade	421	585	1,040	1,130
Finance and Insurance	157	231	160	191
Other	80	153	*	*

*Suppressed to avoid disclosure of data on individual companies.

Source: U.S. Department of Commerce

Table 42: Foreign Direct Investment Position in the United States, Year-End 1976-1980

(in millions of dollars)

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Netherlands	\$ 6,255	\$ 7,830	\$10,078	\$12,672	\$16,159
United Kingdom	5,802	6,397	7,638	9,796	11,342
Canada	5,907	5,650	6,180	7,154	9,810
West Germany	2,097	2,529	3,654	5,665	5,290
Japan	1,178	1,755	2,749	3,493	4,219
Switzerland	2,295	2,651	2,879	3,449	3,682
France	1,570	1,800	1,978	2,289	2,672
Belgium-Luxembourg	n.a.	1,163	1,303	1,567	1,873
OPEC Countries	163	256	366	385	576
Total	30,770	34,595	42,471	54,462	65,483
of which:					
Petroleum	5,921	6,573	7,762	9,906	12,253
Manufacturing	12,620	14,030	17,202	20,876	24,134
Trade	6,123	7,237	9,161	11,562	13,772
Insurance	2,114	2,318	2,773	4,148	5,060
Other	3,993	4,437	5,573	7,971	10,264

Source: U.S. Department of Commerce

Table 43: Japan's Foreign Direct Investment Position in the United States, Year-End 1976-1980

(in millions of dollars)

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Total	\$1,178	\$1,755	\$2,749	\$3,493	\$4,219
Petroleum	45	48	n.a.	160	52
Manufacturing	304	332	474	696	834
Food Products	n.a.	19	27	29	25
Chemicals	47	81	103	202	227
Metals	n.a.	n.a.	176	223	238
Machinery	n.a.	n.a.	69	125	176
Other	106	99	100	117	169
Trade	329	811	1,522	1,767	2,251
Finance	446	514	575	638	754
Insurance	n.a.	38	n.a.	51	85
Real Estate	n.a.	30	45	68	109
Other	n.a.	-18	7	102	134

Source: U.S. Department of Commerce